Financial Section

INDIANA PUBLIC RETIREMENT SYSTEM

2012 COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE INDIANA PUBLIC RETIREMENT SYSTEM BOARD OF TRUSTEES

We have audited the accompanying financial statements of the Indiana Public Retirement System Board of Trustees, as of and for the year ended June 30, 2012. These financial statements are the responsibility of the Indiana Public Retirement System Board of Trustees' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Indiana Public Retirement System Board of Trustees' internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Indiana Public Retirement System Board of Trustees, as of June 30, 2012, and the respective changes in the financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Employer Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Administrative and Project Expenses, Schedule of Investment Expenses, and Schedule of Contractual and Professional Service Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative and Project Expenses, Schedule of Investment Expenses, and Schedule of Contractual and Professional Service Expenses are fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Introductory Section, Investment Section, Actuarial Section, and Statistical Section are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

STATE BOARD OF ACCOUNTS

November 13, 2012

Management's Discussion and Analysis

This section presents Management's Discussion and Analysis (MD&A) of the Indiana Public Retirement System (INPRS) financial position and performance for the fiscal year ended June 30, 2012. The MD&A is presented as a narrative overview and analysis in conjunction with the Letter of Transmittal included in the Introductory Section of the INPRS Comprehensive Annual Financial Report (CAFR). The MD&A should also be read in conjunction with the Financial Statements, the Notes to the Financial Statements, Required Supplementary Information, and the Other Supplementary Schedules presented in the Financial Section of the CAFR.

Prior to July 1, 2011, the retirement plans for public employees in the State of Indiana were administered by independent instrumentalities governed by separate boards of appointed trustees, including the Public Employees' Retirement Fund and the Indiana State Teachers' Retirement Fund. Legislation adopted in 2010 called for a consolidation of these entities, which began with the appointment of a joint Executive Director in May 2010, and resulted in the creation, effective July 1, 2011, of INPRS.

INPRS is an independent instrumentality of the State of Indiana, administering eight (8) pension trust funds including seven (7) Defined Benefit retirement plans and one (1) Defined Contribution retirement plan, two (2) other employment benefit trust funds, and one (1) investment trust fund. The following retirement plans and non-retirement funds are included in the INPRS financial statements. In this regard, refer to the Notes to the Financial Statements for descriptions of these retirement plans and non-retirement funds.

Defined Benefit Retirement Plans:

1. Public Employees' Retirement Fund (PERF)
2. Indiana State Teachers' Retirement Fund (TRF)
3. 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
4. Judges' Retirement System (JRS)
5. State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (E,G,&C Plan)
6. Prosecuting Attorneys' Retirement Fund (PARF)
7. Legislators' Retirement System – Legislators' Defined Benefit Plan (LEDB Plan)

Defined Contribution Retirement Plan:

1. Legislators' Retirement System – Legislators' Defined Contribution Plan (LEDC Plan)

Other Employment Benefit Trust Funds:

1. State Employees' (SE) Death Benefit Fund
2. Public Safety Officers' (PSO) Special Death Benefit Fund

Investment Trust Fund:

1. Pension Relief Fund (PR Fund)

INPRS is governed by a nine-member Board of Trustees, appointed by the Governor pursuant to the following criteria:

A. One (1) trustee with experience in economics, finance, or investments
B. One (1) trustee with experience in executive management or benefits administration
C. One (1) trustee who is an active or retired member of the 1977 fund
D. Two (2) trustees who are TRF members with at least 10 years of creditable service
E. One (1) trustee who is a PERF member with at least 10 years of creditable service
F. Director of the State Budget Agency, or designee
G. Auditor of State, or nominee
H. Treasurer of State, or nominee

Each retirement plan will continue as a separate plan under the oversight of the INPRS Board of Trustees. INPRS is not a merger of the PERF and TRF retirement plans, and neither the assets nor the liabilities of one retirement plan become the assets or liabilities of the other. Individual funded status for each plan will continue to be calculated separately. The consolidation of retirement plan administration is anticipated to enable greater efficiency, by eliminating duplication of efforts and by pooling assets together for investment purposes.

Financial Highlights

- Total net assets of INPRS were $25,564 million as of June 30, 2012. Net assets of the retirement plans, which are held in trust to meet future benefit payments, were $25,547 million as of June 30, 2012. The remaining $17 million of net assets are held in trust to meet future death benefits and local unit withdrawals from the Pension Relief Fund.
- Total net assets of INPRS decreased by $192 million, or (0.7) percent, during fiscal year 2012. Deductions of $2,409 million were largely offset by contributions of $2,031 million, net investment income of $173 million, and other additions of $13 million.
- INPRS contributions primarily from employers and members increased to $2,031 million during fiscal year 2012, or by $107 million (5.6 percent) from contributions of $1,924 million during fiscal year 2011.
- The INPRS rate of return on the Consolidated Defined Benefit Assets for fiscal year 2012 was 0.7 percent, or $173 million, on a market value basis, compared to a return of 19.9 percent for the Public Employees' Retirement Fund and 18.0 percent for the Indiana State Teachers' Retirement Fund, or $3,943 million, for fiscal year 2011.
- INPRS paid $2,354 million in pension and disability benefits, special death benefits, distributions of contributions and interest, and pension relief distributions during fiscal year 2012. This represented an increase of $99 million, or 4.4 percent, from the $2,255 million paid during fiscal year 2011.
- Net assets of the Pension Relief Fund, which are held in trust for pool participants, were $18.4 million as of June 30, 2012, compared to $52.9 million as of June 30, 2011. PR Fund distributions are mandated by state law. The necessary funds required to pay the PR Fund distributions come primarily from State General Fund appropriations, State cigarette and alcohol taxes, and State lottery proceeds.
- INPRS membership was 447,651 as of June 30, 2012. There were 230,703 active members, 126,813 benefit recipients, 27,887 terminated vested members, and 62,248 terminated non-vested members.

- As of June 30, 2012, the date of the most recent actuarial valuation, the aggregate INPRS (excluding the TRF Pre-1996 Account Pay-As-You-Go plan) funded ratio was 81.2 percent. This represents a decrease of 3.7 percentage points from the 84.9 percent funded ratio as of June 30, 2011. The decrease was primarily due to the reduction in the interest rate / investment return assumption from 7.0 percent to 6.75 percent. In addition, since INPRS smoothes market gains and losses over four years, the decrease is also due to a loss on the Actuarial Value of Assets from smoothing investment losses that occurred in fiscal year 2009, as well as the INPRS rate of return being only 0.7 percent for fiscal year 2012 versus the actuarial-assumed 7.0 percent return.

Overview of the Financial Statements

The MD&A is intended to serve as an introduction and overview of the Financial Section in the INPRS CAFR. The INPRS CAFR Financial Section is comprised of four (4) components: (1) Financial Statements, (2) Notes to the Financial Statements, (3) Required Supplementary Information, and (4) Other Supplementary Schedules. The information available in each of these sections is briefly summarized as follows:

1. Financial Statements

The Statement of Fiduciary Net Position presents information on INPRS assets and liabilities and the resulting net assets held in trust for pension benefits, death benefits and pool participants. This statement reflects INPRS investments, at fair value, along with cash, receivables, and other assets and liabilities at June 30, 2012 and June 30, 2011. This statement indicates the net assets available to pay future pension and death benefits and gives a snapshot at a particular point in time.

The Statement of Changes in Fiduciary Net Position presents information showing how INPRS net assets held in trust for pension benefits, death benefits and pool participants changed during the fiscal years ended June 30, 2012 and June 30, 2011. This statement reflects additions primarily from contributions by employers, members, and State appropriations, lottery proceeds and taxes, as well as net investment income resulting from investing and securities lending activities during the period. This statement also includes deductions for pension, disability and death benefit distributions, PR Fund distributions and withdrawals, administrative and project expenses, and other deductions.

2. Notes to the Financial Statements

The Notes to the Financial Statements are an integral part of the financial statements and provide additional detailed information that is essential for a full understanding of the data provided in the INPRS financial statements.

Note 1. – provides a general description of the retirement plans administered by INPRS. Information regarding membership, retirement benefits, and disability and survivor benefits for each of the retirement plans is also provided.

Note 2. – provides a description of the non-retirement funds.

Note 3. – provides a summary of significant accounting policies, including the basis of accounting, investment accounting policies, management's use of estimates, and other significant accounting policies.

Note 4. – provides information about member and employer contributions for each retirement plan.

Note 5. – provides information on deposits and investments.

Note 6. – provides information on derivative financial instruments.

Note 7. – provides information on long-term commitments for alternative investments.

Note 8. – provides information on risk management.

Note 9. -- provides information on contingent liabilities.

Note 10. – provides information on the funded status and actuarial information for each of the defined benefit retirement plans.

Note 11. – provides information on subsequent events to fiscal year end 2012.

Note 12. – summarizes the Required Supplementary Information and Other Supplementary Schedules.

3. Required Supplementary Information

Because of the long-term nature of public defined benefit pension plans, financial statements for the past fiscal year alone cannot provide sufficient information to properly reflect the funding progress of the plans. Therefore, in addition to the basic financial statements, two (2) required schedules of historical trend information related to the defined benefit plans are presented as Required Supplementary Information (RSI) in the INPRS CAFR Financial Section. The two (2) RSI schedules consist of a Schedule of Funding Progress and a Schedule of Contributions from Employers and Other Contributing Entities. These two (2) schedules are based on the actuarial valuations performed by the INPRS actuaries. The actuarial information is based upon assumptions made about future events at the time the valuations were performed; and therefore, the amounts presented are management's estimates. The Actuarial Section of the INPRS CAFR provides additional actuarial-related information.

4. Other Supplementary Schedules

The Other Supplementary Schedules consist of a Schedule of Administrative and Project Expenses, Schedule of Investment Expenses, and Schedule of Contractual and Professional Services Expenses.

Financial Analysis

Statement of Fiduciary Net Position

As shown in the table on the next page, the total net assets for INPRS were $25,564 million as of June 30, 2012, which represents a decrease of $192 million, or (0.7) percent, compared to total net assets of $25,756 million as of June 30, 2011.

Net Position

(dollars in thousands)

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	Percentage Change
Assets				
Cash	$ 28,134	$ 117,339	$ (89,205)	(76.0)%
Securities Lending Collateral	897,731	-	897,731	-
Receivables	1,992,854	1,971,918	20,936	1.1
Investments	26,667,234	26,071,048	596,186	2.3
Capitalized Assets (Net)	10,929	10,435	494	4.7
All Other Assets	97,615	42,300	55,315	130.8
Total Assets	**$ 29,694,497**	**$ 28,213,040**	**$1,481,457**	**5.3 %**
Liabilities				
Investments Payable	$ 3,067,466	$ 2,204,343	$ 863,123	39.2 %
Securities Lending Obligations	897,731	-	897,731	-
All Other Liabilities	165,174	253,024	(87,850)	(34.7)
Total Liabilities	**$ 4,130,371**	**$ 2,457,367**	**$1,673,004**	**68.1 %**
Total Net Assets	**$ 25,564,126**	**$ 25,755,673**	**$ (191,547)**	**(0.7)%**
Investment, Administrative and Project Expenses as a Percentage of Net Assets	0.62%	0.67%	(0.05)%	

Total assets of INPRS were $29,694 million as of June 30, 2012, compared to $28,213 million as of June 30, 2011, which represents an increase in total assets of $1,481 million, or 5.3 percent. The primary reasons for this increase are as follows:

- **Cash** decreased by $89 million, or (76.0) percent, primarily driven by an extra benefit payment ($90 million) during fiscal year 2012 for TRF benefit recipients (13 benefit payments paid during fiscal year 2012 for TRF, resulting from July 1, 2012, being on a weekend and the payment was made on June 29, 2012).
- **Securities Lending Collateral** increased by $898 million, as the program was reinstated with the new custodian, BNY Mellon, after the program was temporarily discontinued late in fiscal year 2011 due to the pending change to a new custodian on July 1, 2011.
- **Receivables** increased by $21 million, or 1.1 percent, primarily due to an increase in the receivable for investments sold driven by timing of transactions at the end of fiscal year 2012.
- **Investments** increased by $596 million, or 2.3 percent, driven primarily by the positive rate of return on investments of 0.7 percent for fiscal year 2012. More significant than the increase in investments is the change in asset classes. Equities decreased by $4,036 million (39 percent), fixed income increased by $2,803 million (32 percent), short-term investments increased by $23 million (1 percent), and other (alternative) investments increased by $1,806 million (41 percent). These changes reflect the overall investment strategy to decrease equity exposure and increase exposure in fixed income and other investments to diversify the investment portfolio. These changes also reflect the decision to invest PERF

Guaranteed Fund assets in short-dated fixed income instruments to better risk match the return offered to participants.

- **Net Capitalized Assets** increased by $0.5 million, or 4.7 percent, due to the capitalization of software costs related to the modernization projects, partially offset by the write-off of tenant improvements related to real estate held as an investment. These improvements are now included as part of the value of the investment.
- **All Other Assets** increased by $55 million, or 130.8 percent, due to an increase in repurchase agreements in fiscal year 2012.

Total liabilities of INPRS were $4,130 million as of June 30, 2012, compared to $2,457 million as of June 30, 2011, which represents an increase in total liabilities of $1,673 million, or 68.1 percent. The primary reasons for the increase are as follows:

- **Investments Payable** increased by $863 million, or 39.2 percent, due to the timing of transactions at the end of fiscal year 2012.
- **Securities Lending Obligations** increased by $898 million as the program was reinstated with the new custodian after the program was temporarily discontinued in late fiscal year 2011 due to the pending change to a new custodian on July 1, 2011.
- **All Other Liabilities** decreased by $88 million, or (34.7) percent, primarily due to a $99 million decrease in TRF retirement benefits payable since the TRF monthly benefit payments for July 2012 were paid in June 2012 due to the payment date of July 1 being on a weekend.

A summary of net assets by fund compared to the prior fiscal year is as follows:

Summary of Net Position by Fund

(dollars in thousands)

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	Percentage Change
PERF	$ 12,243,755	$ 12,461,356	$ (217,601)	(1.7)%
TRF	9,077,059	9,121,738	(44,679)	(0.5)
1977 Fund	3,817,013	3,721,366	95,647	2.6
JRS	262,326	256,986	5,340	2.1
E,G,&C Plan	76,543	75,305	1,238	1.6
PARF	27,689	26,478	1,211	4.6
LEDB Plan	3,385	3,645	(260)	(7.1)
LEDC Plan	25,579	24,755	824	3.3
SE Death Benefit Fund	7,683	7,347	336	4.6
PSO Special Death Benefit Fund	4,683	3,758	925	24.6
PR Fund	18,411	52,939	(34,528)	(65.2)
Total Net Assets	**$ 25,564,126**	**$ 25,755,673**	**$ (191,547)**	**(0.7)%**

Liquidity

The System's defined benefit liquidity needs are met through employer and other contributions, earnings from investments, and the well diversified portfolio of INPRS. On June 30, 2012, INPRS held over $5.3 billion in Money Market Sweep Vehicles and U.S. Government and Agency Securities. INPRS also held over $1.6 billion in highly liquid, Large-Cap Domestic Equities. Because of their characteristics, investments in Non-U.S. Government Bonds, Corporate Bonds, Asset-backed Securities, other Domestic Equities, and International Equities are not considered a primary source of liquidity. Investments in Private Equity, Real Estate, and Alternative Investments are generally considered illiquid.

Statement of Changes in Fiduciary Net Position

As shown in the table below, the total net assets for INPRS decreased by $192 million, or (0.7) percent, for fiscal year 2012, compared to a total net assets increase of $3,574 million as of June 30, 2011. A summary of changes in net position during the fiscal years ended June 30, 2012 and June 30, 2011, is presented below:

Changes in Net Position

(dollars in thousands)

	June 30, 2012	June 30, 2011	Increase/ (Decrease)	Percentage Change
Additions				
Member Contributions	$ 335,548	$ 330,314	$ 5,234	1.6 %
Employer Contributions	1,605,839	1,493,683	112,156	7.5
Other Contributions	89,763	100,456	(10,693)	(10.6)
Net Investment Income	172,801	3,943,198	(3,770,397)	(95.6)
Other Additions	13,125	15,576	(2,451)	(15.7)
Total Additions	**$ 2,217,076**	**$ 5,883,227**	**$ (3,666,151)**	**(62.3)%**
Deductions				
Benefits – Pension, Disability, Death	$ 2,034,849	$ 1,944,624	$ 90,225	4.6 %
Distributions of Contributions and Interest	95,431	91,447	3,984	4.4
Pension Relief Distributions	224,220	219,425	4,795	2.2
Administrative Expenses	31,489	31,824	(335)	(1.1)
Project Expenses	9,359	4,094	5,265	128.6
All Other Deductions	13,275	18,304	(5,029)	(27.5)
Total Deductions	**$ 2,408,623**	**$ 2,309,718**	**$ 98,905**	**4.3 %**
Net Increase / (Decrease) in Net Assets	**$ (191,547)**	**$ 3,573,509**	**$ (3,765,056)**	**(105.4)%**
Changes in Net Assets Held in Trust for:				
Pension Benefits	$ (158,280)	$ 3,618,503	$ (3,776,783)	(104.4)%
Future Death Benefits[1]	1,261	771	490	63.6
Local Units[2]	(34,528)	(45,765)	11,237	24.6

[1]Other Employee Benefit Trust Funds.
[2]Pension Relief Fund only.

Additions to the net position of INPRS needed to finance retirement benefits are accumulated primarily through contributions and investment income. Total additions for INPRS were $2,217 million for fiscal year 2012, compared to $5,883 million for fiscal year 2011, which represents a decrease in total additions of $3,666 million, or (62.3) percent. The primary reasons for the decrease are as follows:

- Employer Contributions increased by $112 million, or 7.5 percent, primarily due to an increase in PERF employer contributions of $66 million largely driven by an increase in the PERF employer contribution rates due to poor investment returns in fiscal year 2008 and fiscal year 2009. In addition, there was an increase of $42 million in State of Indiana General Fund appropriations mainly due to higher TRF Pre-1996 Account and Pension Relief Fund appropriations.
- Other Contributions decreased by $11 million, or (10.6) percent, primarily due to a decline in lottery proceeds. Fiscal year 2011 included a one-time increase of $10 million in lottery proceeds due to a change in the timing of receipts.
- Net Investment Income declined by $3,770 million, or (95.6) percent, driven by a 0.7 percent return on Consolidated Defined Benefit Assets in fiscal year 2012 compared to a 19.9 percent return for the Public Employees' Retirement Fund and an 18.0 percent return for the Indiana State Teachers' Retirement Fund in fiscal year 2011. The significant difference was primarily due to a difficult and uncertain macro-economic environment, specifically in the first quarter of fiscal year 2012. Weaker than expected GDP, the United States debt downgrade, and renewed fears regarding Europe's fiscal situation all negatively contributed to the performance in fiscal year 2012.
- Other Additions declined by $2 million, or (15.7) percent, due to a decline in interfund transfers which by their nature, can fluctuate significantly from year to year.

Benefit payments, distributions of contributions and interest to members who terminate employment, administrative expenses and project expenses primarily comprise the INPRS expenses, or deductions from net position. Total deductions for INPRS were $2,409 million for fiscal year 2012, compared to $2,310 million for fiscal year 2011, which represents an increase in total deductions of $99 million, or 4.3 percent. The primary reasons for the increase are as follows:

- Pension, Disability and Death Benefits increased by $90 million, or 4.6 percent, due to an increase in the number of retirees.
- Project Expenses increased by $5 million, or 128.6 percent, primarily due to a higher amount of the project expenses for the Employer Reporting and Maintenance modernization program, as well as the development and infrastructure project work for the Indiana Pension Administration System modernization program, being incurred in fiscal year 2012 versus fiscal year 2011.
- All Other Deductions declined by $5 million, or (27.5) percent, due to lower local unit withdrawals and interfund transfers which by their nature, can fluctuate significantly from year to year.

Consolidated Defined Benefit Asset Allocation and Rate of Return on Investments

Effective October 28, 2011, the INPRS Board of Trustees approved the new strategic allocation for the Consolidated Defined Benefit Assets. Substantially all of the investments for the retirement plans administered by INPRS are pooled in the Consolidated Defined Benefit Retirement Assets. The following table presents the INPRS Consolidated Defined Benefit Assets investment allocation as of June 30, 2012, compared to the INPRS current target investment allocation and actual allocation as of June 30, 2011.

Consolidated Defined Benefit Asset Allocation

	June 30, 2012 Actual	June 30, 2012 Target	June 30, 2011 Actual	Allowable Range For Investments[1]
Public Equity	25.2%	22.5%	41.8%	20.0% to 25.0%
Private Equity	13.3	10.0	9.8	7.0% to 13.0%
Fixed Income - Ex Inflation-Linked	25.1	22.0	25.6	19.0% to 25.0%
Fixed Income - Inflation-Linked	10.5	10.0	8.6	7.0% to 13.0%
Commodities	7.9	8.0	3.7	6.0% to 10.0%
Real Estate	4.7	7.5	4.3	4.0% to 11.0%
Absolute Return	6.3	10.0	6.2	6.0% to 14.0%
Risk Parity	7.0	10.0	0.0	5.0% to 15.0%
Total	**100.0%**	**100.0%**	**100.0%**	

[1]See Notes to the Financial Statements, Note 5. for additional information.

During fiscal year 2012, INPRS shifted the asset allocation to reflect the overall investment strategy to decrease equity exposure and increase exposure in fixed income, commodities, risk parity, and other investments to diversify the investment portfolio.

The Consolidated Defined Benefit Assets (i.e., INPRS-controlled asset allocation) rate of return on investments was positive 0.7 percent for fiscal year 2012, compared to the 7.0 percent actuarial-assumed long-term rate of return. The following provides a brief summary of the rate of return for each asset class for fiscal year 2012, compared to the respective benchmark for each asset class. The Investment Section provides additional information for the INPRS investments.

- Public Equity, which seeks to provide long-term capital appreciation and income through exposure to public equity securities, had a return on investment of negative (6.1) percent for fiscal year 2012. This return compared 0.8 percentage points favorable to the benchmark of negative (6.9) percent for the MSCI All Country World IMI Index.
- Private Equity, which seeks to provide risk-adjusted returns in excess of the public equity markets while simultaneously decreasing the volatility of the INPRS investment portfolio through diversification, had a return on investment of positive 12.0 percent for fiscal year 2012. This return compared 5.2 percentage points favorable to the benchmark of positive 6.8 percent for the Russell 3000 Index plus 300 basis points.
- Fixed Income – Ex Inflation-Linked, which seeks to generate current income and long-term risk-adjusted returns through investments in debt securities, had a return on investment of positive 6.7 percent for fiscal year 2012. This return was the same as the benchmark of positive 6.7 percent for the Barclays Capital Global Aggregate Index.
- Fixed Income – Inflation-Linked, or Treasury Inflation Protected Securities (TIPS), which seeks to generate long-term risk-adjusted returns through investments in inflation-linked securities and to provide protection against unanticipated inflation, had a return on investment of positive 11.1 percent for fiscal year 2012. This return compared 2.2 percentage points favorable to the benchmark of positive 8.9 percent for the Barclays Capital Global Inflation-Linked Bond Index.

- Commodities, which seek to enhance long-term risk-adjusted returns by preserving investment capital, lowering overall volatility, and providing a hedge against certain types of inflation, had a return on investment of negative (11.7) percent for fiscal year 2012. This return compared 0.8 percentage points favorable to the benchmark of negative (12.5) percent for a 50/50 blend of the Dow Jones UBS Commodity Index and the Goldman Sachs Commodity Index.
- Real Estate, which seeks to generate attractive risk-adjusted returns by providing stable current income, preserving investment capital, and reducing volatility by providing a hedge against unanticipated inflation, had a return on investment of positive 9.0 percent for fiscal year 2012. This return compared (4.6) percentage points unfavorable to the benchmark of positive 13.6 percent for the NCREIF Open End Diversified Core Equity Index.
- Absolute Return, which seeks to enhance the long-term risk-adjusted returns by providing diversification benefits, while preserving capital and reducing volatility, had a return on investment of negative (2.5) percent for fiscal year 2012. This return compared 2.0 percentage points favorable to the benchmark of negative (4.5) percent for the HFRI Fund of Funds Composite Index.
- Risk Parity, which seeks to create risk-balance that is capable of delivering consistent and high risk-adjusted returns in several macro-economic environments, had a return on investment of 1.0 percent since the inception date of March 14, 2012. This return compared 3.1 percentage points favorable to the benchmark of negative (2.1) percent for the blended benchmark of the MSCI ACWI IMI Index (equities – 60 percent) and Barclays Global Aggregate Bond Index (40 percent).

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. A pension fund is fully funded when it has enough money in reserve to meet all expected future obligations to participants. The goal for the defined benefit retirement plans is to make progress toward achieving full funding.

The funded ratios of the defined benefit pension plans administered by INPRS as of the latest actuarial valuations were as follows:

Historical Trends

	June 30, 2012	June 30, 2011
PERF	76.6%	80.5%
TRF 1996 Account	90.7	91.7
1977 Fund	91.9	98.8
JRS	59.4	62.1
E,G,&C Plan	67.1	71.5
PARF	49.0	48.2
LEDB Plan	75.0	78.6
Total INPRS (Excluding TRF Pre-1996 Account[1])	**81.2%**	**84.9%**
TRF Pre-1996 Account[1]	30.1	32.0
Total INPRS (Including TRF Pre-1996 Account[1])	**60.8%**	**63.0%**

[1]Pay-As-You-Go Plan

An analysis of the funding progress, employer contributions and a discussion of actuarial assumptions and methods is set forth in Note 10 and in the Required Supplementary Information of the Financial Section. For additional actuarial-related information, refer to the Actuarial Section of the CAFR.

FINANCIAL SECTION

Statement of Fiduciary Net Position

As of June 30, 2012 (with Comparative Totals for the Year Ended June 30, 2011)[1]

	Pension Trust Funds							
(dollars in thousands)	Public Employees' Retirement Fund	Teachers' Retirement Fund	1977 Police Officers' and Firefighters' Pension and Disability Fund	Judges' Retirement System	State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	Prosecuting Attorneys' Retirement Fund	Legislators' Defined Benefit Plan	Legislators' Defined Contribution Plan
Assets								
Cash	$ 11,501	$ 11,358	$ 316	$ 106	$ 240	$ 50	$ 1	$ 27
Securities Lending Collateral	427,226	280,014	171,659	11,915	3,459	1,255	154	452
Repurchase Agreements	-	-	-	-	-	-	-	-
Receivables:								
Contributions Receivable	103,268	56,239	41,057	99	239	50	-	12
Miscellaneous Receivables	(410)	408	87	49	-	1	-	1,078
Investments Receivable	-	-	-	-	-	-	-	-
Interest and Dividends	-	-	-	-	-	-	-	-
Due From Other Funds	4,768	2,398	-	-	-	-	-	281
Total Receivables	107,626	59,045	41,144	148	239	51	0	1,371
Investments:								
Short Term Investments	-	-	-	-	-	-	-	-
Fixed Income	-	-	-	-	-	-	-	-
Equities	-	-	-	-	-	-	-	-
Other Investments[2]	12,126,140	9,010,434	3,776,158	262,113	76,090	27,610	3,394	24,185
Total Investments	12,126,140	9,010,434	3,776,158	262,113	76,090	27,610	3,394	24,185
Other Assets	125	-	-	-	-	-	-	-
Gross Capitalized Assets	12,217	2,886	214	8	8	6	1	3
Less: Accumulated Depreciation and Amortization	(3,272)	(1,022)	(107)	(5)	(4)	(3)	(1)	(1)
Net Capitalized Assets	8,945	1,864	107	3	4	3	-	2
Total Assets	**12,681,563**	**9,362,715**	**3,989,384**	**274,285**	**80,032**	**28,969**	**3,549**	**26,037**
Liabilities								
Accounts Payable	4,999	1,066	138	17	12	11	6	1
Retirement Benefits Payable	703	239	16	-	-	-	1	-
Salaries and Benefits Payable	2,116	-	-	-	-	-	-	-
Investments Payable	85	10	1	-	-	-	-	-
Securities Lending Obligations	427,226	280,014	171,659	11,915	3,459	1,255	154	452
Securities Sold Under Agreement to Repurchase	-	-	-	-	-	-	-	-
Due to Other Funds	2,679	4,327	557	27	18	14	3	5
Total Liabilities	**437,808**	**285,656**	**172,371**	**11,959**	**3,489**	**1,280**	**164**	**458**
Net Assets Held in Trust for:								
Pension Benefits	12,243,755	9,077,059	3,817,013	262,326	76,543	27,689	3,385	25,579
Future Death Benefits	-	-	-	-	-	-	-	-
Local Units	-	-	-	-	-	-	-	-
Total Net Assets Held in Trust	**$ 12,243,755**	**$ 9,077,059**	**$ 3,817,013**	**$ 262,326**	**$ 76,543**	**$ 27,689**	**$ 3,385**	**$ 25,579**

[1]The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.
[2]The majority of the systems' investments are in unitized pools, and each fund owns shares of these unitized pools, not specific assets. The Unitized Investment Allocation column reflects the allocation of the unitized investments to each fund on the Other Investments line.
[3]Effective July 1, 2011, the two Indiana pension administrative agencies, Public Employees' Retirement Fund (PERF) and Indiana State Teachers' Retirement Fund (TRF), were merged to become Indiana Public Retirement System (INPRS). Statements of Fiduciary Net Assets as of June 30, 2011 for the two agencies have been combined, and financial statement lines have been restated to be more comparable to INPRS' June 30, 2012 reporting classifications.

Statement of Fiduciary Net Position, continued

As of June 30, 2012 (with Comparative Totals for the Year Ended June 30, 2011)[1]

(dollars in thousands)	Other Employment Benefit Trust Funds: State Employees' Death Benefit Fund	Other Employment Benefit Trust Funds: Public Safety Officers' Special Death Benefit Fund	Investment Trust Fund: Pension Relief Fund	Unitized Investment Allocation[2]	2012 Totals	2011 Totals[3]
Assets						
Cash	$ -	$ 215	$ 4,315	$ 5	$ 28,134	$ 117,339
Securities Lending Collateral	1,010	587	-	-	897,731	-
Repurchase Agreements	-	-	-	97,490	97,490	42,300
Receivables:						
Contributions Receivable	-	-	-	-	200,964	204,454
Miscellaneous Receivables	-	-	-	-	1,213	1,287
Investments Receivable	-	-	-	1,696,092	1,696,092	1,658,174
Interest and Dividends	-	-	-	86,947	86,947	81,050
Due From Other Funds	-	-	-	191	7,638	26,953
Total Receivables	-	-	-	1,783,230	1,992,854	1,971,918
Investments:						
Short Term Investments	-	-	-	2,494,039	2,494,039	2,471,198
Fixed Income	-	-	-	11,672,834	11,672,834	8,870,077
Equities	-	-	-	6,281,118	6,281,118	10,317,270
Other Investments[2]	7,683	4,468	14,116	(19,113,148)	6,219,243	4,412,503
Total Investments	7,683	4,468	14,116	1,334,843	26,667,234	26,071,048
Other Assets	-	-	-	-	125	-
Gross Capitalized Assets	-	-	2	-	15,345	13,723
Less: Accumulated Depreciation and Amortization	-	-	(1)	-	(4,416)	(3,288)
Net Capitalized Assets	-	-	1	-	10,929	10,435
Total Assets	**8,693**	**5,270**	**18,432**	**3,215,568**	**29,694,497**	**28,213,040**
Liabilities						
Accounts Payable	-	-	13	-	6,263	7,373
Retirement Benefits Payable	-	-	-	-	959	99,795
Salaries and Benefits Payable	-	-	-	-	2,116	1,461
Investments Payable	-	-	-	3,067,370	3,067,466	2,204,343
Securities Lending Obligations	1,010	587	-	-	897,731	-
Securities Sold Under Agreement to Repurchase	-	-	-	148,198	148,198	117,442
Due to Other Funds	-	-	8	-	7,638	26,953
Total Liabilities	**1,010**	**587**	**21**	**3,215,568**	**4,130,371**	**2,457,367**
Net Assets Held in Trust for:						
Pension Benefits	-	-	13,890	-	25,547,239	25,739,801
Future Death Benefits	7,683	4,683	-	-	12,366	11,105
Local Units	-	-	4,521	-	4,521	4,767
Total Net Assets Held in Trust	**$ 7,683**	**$ 4,683**	**$ 18,411**	**$ -**	**$ 25,564,126**	**$ 25,755,673**

[1]The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.
[2]The majority of the systems' investments are in unitized pools, and each fund owns shares of these unitized pools, not specific assets. The Unitized Investment Allocation column reflects the allocation of the unitized investments to each fund on the Other Investments line.
[3]Effective July 1, 2011, the two Indiana pension administrative agencies, Public Employees' Retirement Fund (PERF) and Indiana State Teachers' Retirement Fund (TRF), were merged to become Indiana Public Retirement System (INPRS). Statements of Fiduciary Net Assets as of June 30, 2011 for the two agencies have been combined, and financial statement lines have been restated to be more comparable to INPRS' June 30, 2012 reporting classifications.

Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2012 (with Comparative Totals for the Year Ended June 30, 2011)[1]

	Pension Trust Funds							
(dollars in thousands)	Public Employees' Retirement Fund	Teachers' Retirement Fund	1977 Police Officers' and Firefighters' Pension and Disability Fund	Judges' Retirement System	State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	Prosecuting Attorneys' Retirement Fund	Legislators' Defined Benefit Plan	Legislators' Defined Contribution Plan
Additions								
Contributions:								
Member Contributions	$ 158,696	$ 129,962	$ 40,870	$ 2,468	$ 972	$ 1,277	$ -	$ 1,303
Employer Contributions	397,843	915,490	135,605	18,896	5,054	1,839	112	-
Other Contributions	-	30,000	-	-	-	-	-	-
Total Contributions	556,539	1,075,452	176,475	21,364	6,026	3,116	112	1,303
Investment Income:								
Net Appreciation/(Depreciation) Fair Value of Investments	(187,668)	(42,860)	(46,528)	(3,258)	(953)	(352)	(51)	(180)
Other Net Investment Income[2]	12,090	50,842	3,735	259	76	27	6	462
Net Interest and Dividends Income	218,757	176,625	68,266	4,749	1,380	497	64	253
Securities Lending Income	3,665	2,479	1,346	94	27	10	1	4
Total Net Investment Income	46,844	187,086	26,819	1,844	530	182	20	539
Less Direct Investment Expenses:								
Investment Management Fees[2]	(42,863)	(18,096)	(17,169)	(1,196)	(347)	(125)	(16)	(7)
Securities Lending Fees	(184)	(353)	(85)	(6)	(2)	(1)	-	-
Direct Investment Expenses	(7,749)	(2,636)	(815)	(47)	(21)	(14)	(1)	(5)
Net Investment Income/(Loss)	(3,952)	166,001	8,750	595	160	42	3	527
Other Additions:								
Miscellaneous Income	8	-	41	2	-	-	-	49
Interfund Transfers	3,341	9,304	123	257	-	-	-	-
Total Other Additions	3,349	9,304	164	259	-	-	-	49
Total Additions	**555,936**	**1,250,757**	**185,389**	**22,218**	**6,186**	**3,158**	**115**	**1,879**
Deductions								
Pension and Disability Benefits	669,181	1,256,938	84,208	16,727	4,717	1,802	338	-
Special Death Benefits	-	-	738	-	-	-	-	-
Distribution of Contributions and Interest	69,879	21,236	3,101	19	100	63	-	1,033
Pension Relief Distributions	-	-	-	-	-	-	-	-
Local Unit Withdrawals	-	-	-	-	-	-	-	-
Administrative Expenses	18,821	10,931	1,344	119	119	72	35	18
Project Expenses	5,972	3,023	318	13	12	10	2	4
Interfund Transfers	9,684	3,308	33	-	-	-	-	-
Total Deductions	**773,537**	**1,295,436**	**89,742**	**16,878**	**4,948**	**1,947**	**375**	**1,055**
Net Increase/(Decrease)	**(217,601)**	**(44,679)**	**95,647**	**5,340**	**1,238**	**1,211**	**(260)**	**824**
Beginning Net Assets Held in Trust for:								
Pension Benefits	12,461,356	9,121,738	3,721,366	256,986	75,305	26,478	3,645	24,755
Future Death Benefits	-	-	-	-	-	-	-	-
Local Units	-	-	-	-	-	-	-	-
Ending Net Assets Held in Trust	**$ 12,243,755**	**$ 9,077,059**	**$ 3,817,013**	**$ 262,326**	**$ 76,543**	**$ 27,689**	**$ 3,385**	**$ 25,579**

[1]The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.
[2]Private equity investment results are reported to INPRS' investment custodian net of management fees. The Unitized Investment Allocation column reflects INPRS' adjustment to gross up revenue and recognize related management fees as expense.
[3]Effective July 1, 2011, the two Indiana pension administrative agencies, Public Employees' Retirement Fund (PERF) and Indiana State Teachers' Retirement Fund (TRF), were merged to become Indiana Public Retirement System (INPRS). Statements of Changes in Fiduciary Net Assets as of June 30, 2011 for the two agencies have been combined, and financial statement lines have been restated to be more comparable to INPRS' June 30, 2012 reporting classifications.

Statement of Changes in Fiduciary Net Position, continued

For the Year Ended June 30, 2012 (with Comparative Totals for the Year Ended June 30, 2011)[1]

	Other Employment Benefit Trust Funds		Investment Trust Fund			
(dollars in thousands)	State Employees' Death Benefit Fund	Public Safety Officers' Special Death Benefit Fund	Pension Relief Fund	Unitized Investment Allocation[2]	2012 Totals	2011 Totals[3]
Additions						
Contributions:						
Member Contributions	$ -	$ -	$ -	$ -	$ 335,548	$ 330,314
Employer Contributions	-	-	131,000	-	1,605,839	1,493,683
Other Contributions	-	716	59,047	-	89,763	100,456
Total Contributions	-	716	190,047	-	2,031,150	1,924,453
Investment Income:						
Net Appreciation/(Depreciation) Fair Value of Investments	160	84	-	-	(281,606)	3,528,633
Other Net Investment Income[2]	-	-	-	26,647	94,144	-
Net Interest and Dividends Income	236	130	82	-	471,039	541,153
Securities Lending Income	2	1	-	-	7,629	14,231
Total Net Investment Income	398	215	82	26,647	291,206	4,084,017
Less Direct Investment Expenses:						
Investment Management Fees[2]	(12)	(6)	-	(26,647)	(106,484)	(123,670)
Securities Lending Fees	-	-	-	-	(631)	(3,398)
Direct Investment Expenses	-	-	(2)	-	(11,290)	(13,751)
Net Investment Income/(Loss)	386	209	80	-	172,801	3,943,198
Other Additions:						
Miscellaneous Income	-	-	-	-	100	169
Interfund Transfers	-	-	-	-	13,025	15,407
Total Other Additions	-	-	-	-	13,125	15,576
Total Additions	**386**	**925**	**190,127**	**-**	**2,217,076**	**5,883,227**
Deductions						
Pension and Disability Benefits	-	-	-	-	2,033,911	1,943,400
Special Death Benefits	50	-	150	-	938	1,224
Distribution of Contributions and Interest	-	-	-	-	95,431	91,447
Pension Relief Distributions	-	-	224,220	-	224,220	219,425
Local Unit Withdrawals	-	-	250	-	250	2,894
Administrative Expenses	-	-	30	-	31,489	31,824
Project Expenses	-	-	5	-	9,359	4,094
Interfund Transfers	-	-	-	-	13,025	15,410
Total Deductions	**50**	**-**	**224,655**	**-**	**2,408,623**	**2,309,718**
Net Increase/(Decrease)	**336**	**925**	**(34,528)**	**-**	**(191,547)**	**3,573,509**
Beginning Net Assets Held in Trust for:						
Pension Benefits	-	-	48,172	-	25,739,801	22,164,175
Future Death Benefits	7,347	3,758	-	-	11,105	10,335
Local Units	-	-	4,767	-	4,767	7,654
Ending Net Assets Held in Trust	**$ 7,683**	**$ 4,683**	**$ 18,411**	**$ -**	**$ 25,564,126**	**$ 25,755,673**

[1] The accompanying notes are an integral part of the financial statements. Please see the Notes to the Financial Statements for further details.
[2] Private equity investment results are reported to INPRS' investment custodian net of management fees. The Unitized Investment Allocation column reflects INPRS' adjustment to gross up revenue and recognize related management fees as expense.
[3] Effective July 1, 2011, the two Indiana pension administrative agencies, Public Employees' Retirement Fund (PERF) and Indiana State Teachers' Retirement Fund (TRF), were merged to become Indiana Public Retirement System (INPRS). Statements of Changes in Fiduciary Net Assets as of June 30, 2011 for the two agencies have been combined, and financial statement lines have been restated to be more comparable to INPRS' June 30, 2012 reporting classifications.

Note 1. Description of Retirement Plans

(A) Public Employees' Retirement Fund

Plan Description

The Public Employees' Retirement Fund (PERF) is an agent multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to full-time employees of the state of Indiana not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions means a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation.

PERF was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.3, and IC 5-10.5. There are two (2) aspects to the PERF defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

Membership

PERF acts as a common investment and administrative agent for units of state and local governments in Indiana and covers many officers and employees of municipalities of the state (referred to as political subdivisions), including counties, cities, towns, townships, libraries, and school corporations. The political subdivisions become participants by ordinance or resolution of the governing body, which specifies the classifications of employees who will become members of the plan. The ordinance or resolution is filed with and approved by INPRS. In order to be a member, employees hired after June 30, 1982, except employees of a participating school corporation, must occupy positions normally requiring performance of service of more than 1,000 hours during a year. Effective July 1, 2008, members who have at least one (1) year of service in both PERF and the TRF have the option of choosing from which of these funds they would like to retire.

As of June 30, 2012, the number of participating political subdivisions was 1,121, and there were also 17 State-related participating employers. As of June 30, 2012, PERF membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	72,992
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	21,200
Terminated Non-Vested Members Entitled To a Distribution of ASA Balance	47,874
Active Members: Vested and Non-Vested	145,519
Total	**287,585**
Total Covered Payroll for Active Members *(dollars in thousands)*	**$ 4,904,052**

Retirement Benefits

The PERF retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. The employer contribution rate is based on an actuarial valuation and is adopted by the INPRS Board of Trustees in accordance with IC 5-10.2-2-11. The annuity savings account consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member and do not belong to the state or political subdivision.

Investments in the members' annuity savings accounts are individually directed and controlled by plan participants who direct the investment of their account balances among the following eight (8) investment options with varying degrees of risk and return potential.

- Guaranteed Fund – This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
- Large Cap Equity Index Fund – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
- Small/Mid Cap Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
- International Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
- Fixed Income Fund – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.
- Inflation-Linked Fixed Income Fund – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.
- Money Market Fund – This fund's objective is to provide a market rate of return consistent with the preservation of capital through a shorter maturity, high quality portfolio. Market risk is assumed by the member.
- Target Date Funds – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.

Members may make changes to their investment directions daily. Investments of the plan are reported at fair market value.

Generally, the pension benefit vests after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their annuity savings account. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position who wait 30 days after termination may withdraw their annuity savings account and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account at any time, but by doing so forfeit his/her creditable service. A member who returns to covered service may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the 20 calendar quarters of creditable service in which the member's annual compensation was the highest. All 20 calendar quarters do not have to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. Member contributions paid by the employer on behalf of the member and severance pay up to $2,000 are included as part of the member's salary.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status are increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis. There was no COLA for the year ended June 30, 2012; however, eligible members did receive a one-time check in September 2011. The amount of the one-time check ranged from $150 to $450, depending upon a member's years of service, and was for a member who retired or was disabled on or before January 1, 2011, and who was entitled to receive a monthly benefit on July 1, 2011.

Disability and Survivor Benefits

PERF also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is $180 per month, or actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

(B) Teachers' Retirement Fund

Plan Description

The Indiana State Teachers' Retirement Fund (TRF) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to public school teachers and administrators, regularly employed licensed teachers at certain state universities and other educational institutions, and certain INPRS employees hired by TRF before July 1, 2011. There are two (2) aspects to the TRF defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the TRF benefit structure is the annuity savings account that supplements the defined benefit at retirement.

TRF was established by the Indiana General Assembly in 1921. In 1955, TRF was designed as a pay-as-you-go defined benefit retirement plan. In 1995, legislation was passed that closed the pay-as-you-go plan (named the TRF Pre-1996 Account) to newly hired members and created a new account (named the TRF 1996 Account) for all members hired after June 30, 1995. TRF is governed by the INPRS Board of Trustees in accordance with Indiana Code (IC) 5-10.2, IC 5-10.4, and IC 5-10.5.

Membership

Membership in TRF is required for all legally qualified and regularly employed licensed teachers who serve in the public schools of Indiana, teachers employed by the state at state institutions, and certain INPRS employees. Additionally, faculty members and professional employees at Ball State University, Vincennes University, and the University of Southern Indiana have the option of selecting membership in the Fund or the alternate University Plan. Membership in TRF is optional for teachers employed by charter schools, employees and officials of the Indiana State Board of Education who were Indiana licensed teachers prior to their employment with the Board, and teachers employed by special management teams as defined under IC 20-31 et Seq.

As of June 30, 2012, the number of participating employers was 367. As of June 30, 2012, TRF membership consisted of:

Retired Members, Beneficiaries, and Disabled Members Receiving Benefits	49,971
Terminated Vested Members Entitled To But Not Yet Receiving Benefits	6,367
Terminated Non-Vested Members Entitled To a Distribution of ASA Balance	13,322
Active Members: Vested and Non-Vested	70,573
Total	**140,233**
Total Covered Payroll for Active Members *(dollars in thousands)*	**$ 4,232,018**

Retirement Benefits

The TRF retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's annuity savings account. The employer contribution is based on an actuarial valuation and is adopted by the INPRS Board of Trustees in accordance with IC 5-10.2-2-11 and IC 5-10.4-2-4. The annuity savings account consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. A member's contributions and interest credits belong to the member.

Investments in the members' annuity savings accounts are individually directed and controlled by plan participants who direct the investment of their account balances among the following seven (7) investment options with varying degrees of risk and return potential.

- Guaranteed Fund – This fund's objective is to provide stability of principal and a competitive interest rate. The interest rate is set by the INPRS Board of Trustees each year and is guaranteed for the fiscal year. Market risk is assumed by the Fund.
- Large Cap Equity Index Fund – This fund's objective is to seek investment growth/capital appreciation through passive investment in the stocks of the 500 largest U.S. companies. Market risk is assumed by the member.
- Small/Mid Cap Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of small- and mid-sized U.S. companies. Market risk is assumed by the member.
- International Equity Fund – This fund's objective is to seek investment growth/capital appreciation through both active and passive investment in stocks of non-U.S. companies in both developed and emerging markets. Market risk is assumed by the member.
- Fixed Income Fund – This fund's objective is to seek total return, consisting of income and capital appreciation. Market risk is assumed by the member.

- Inflation-Linked Fixed Income Fund – This fund's objective is to provide investors inflation protection and income consistent with investment in inflation-indexed securities. Principal and interest payments are adjusted in response to changes in inflation. Market risk is assumed by the member.
- Target Date Funds – The Funds are designed to seek an appropriate amount of total return, commensurate with risk, given the specific time horizon of each Fund. The Target Date Funds provide participants with a one-stop shop for investing. Participants simply choose the Fund most appropriate for them based on the year in which they plan to withdraw their money (usually their retirement year). Once a participant selects the appropriate Fund, the underlying asset allocation automatically adjusts over time. Market risk is assumed by the member.

Members may make changes to their investment directions daily. Investments of the plan are reported at fair market value.

The pension benefit vests after 10 years of creditable service. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's annuity savings account, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested TRF members leaving a covered position who wait 30 days after termination may withdraw their annuity savings account and will not forfeit creditable service or a future retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the annuity savings account. A non-vested member who terminates employment prior to retirement may withdraw his/her annuity savings account at any time, but by doing so forfeit his/her creditable service. A member who returns to covered service may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. Generally, the average annual compensation in this calculation is the average annual compensation for the five (5) years of service before retirement in which the member's annual compensation was the highest. For TRF members who take a leave of absence to serve as an elected official, the highest one (1) year of salary is used. In order for a year to be included in the five (5) years, the member must have received for the year credit under IC 5-10.4-4-2 for at least one-half (1/2) year of service. The five (5) years do not have to be continuous. Member contributions paid by the employer on behalf of the member and severance pay up to $2,000 are included as part of the member's salary.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status are increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis. There was no COLA for the year ended June 30, 2012; however, eligible members did receive a one-time check in September 2011. The amount of the one-time check ranged from $150 to $450, depending upon a member's years of service, and was for a member who retired or was disabled on or before January 1, 2011, and who was entitled to receive a monthly benefit on July 1, 2011.

Disability and Survivor Benefits

TRF also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement.

Members are eligible for a classroom disability benefit once they have earned five (5) years of service, have a temporary or permanent disability that continues for six (6) months or more, and applies for classroom disability benefits within one (1) year of the disability. Classroom disability refers to a medically confirmed inability to continue classroom teaching due to a mental or physical condition that is not necessarily of sufficient severity to meet social security disability guidelines. The eligible members may receive $125 per month plus $5 for each additional year of service credit over five (5) years.

Upon the death in service of a member with 15 or more years of creditable service, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after March 31, 1990, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

(C) 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund) is a cost-sharing, multiple-employer defined benefit plan established to provide retirement, disability, and survivor benefits to all full-time police officers and firefighters who are hired (or rehired) after April 30, 1977. The 1977 Fund was established in 1977 and is governed by IC 36-8-8 to provide coverage to full-time sworn officers of a police force of an Indiana city or town and full-time firefighters employed by an Indiana city, town, township or county.

Membership

As of June 30, 2012, the number of participating employers totaled 162 (which includes 257 police and fire departments). As of June 30, 2012, the 1977 Fund membership consisted of:

Retired Members, Beneficiaries and Disabled Members Receiving Benefits	3,208
Terminated Vested Plan Members Entitled To But Not Yet Receiving Benefits	122
Terminated Non-Vested Plan Members Entitled To a Distribution of Contributions	751
Active Members: Vested and Non-Vested	13,390
Total	**17,471**
Total Covered Payroll for Active Members *(dollars in thousands)*	**$ 697,111**

A member is required by statute to contribute six (6) percent of a first class officer's or firefighter's salary for the term of his/her employment up to 32 years. The accumulated value of the member's contribution, including interest, may be withdrawn if the member terminates employment prior to completing 20 years of service. The actuary determines employer contributions, subject to approval by the INPRS Board of Trustees.

Retirement Benefits

A member vests after 20 years of service. If the member retires at or after the age of 52 with 20 years of service, the benefit is equal to 50 percent of the salary of a first class officer, as reported by the employer in the year the 1977 Fund member ended service plus one (1) percent of that salary for each six (6) months of active service over 20 years to a maximum of 12 years. At age 50 and with 20 years of service, a member may elect to receive a reduced benefit by a factor established by the fund's actuary (IC 36-8-8-11).

The monthly pension benefits for members in pay status may be increased annually in accordance with the cost of living adjustment (COLA) statute (IC 36-8-8-15). A member is entitled to an annual increase in the member's benefit equal to the percentage increase in the Consumer Price Index; however, the maximum increase is 3.0 percent. There was a COLA increase of 2.1 percent effective July 1, 2011.

Disability and Survivor Benefits

The 1977 Fund also provides disability and survivor benefits. An active member may file an application for disability benefits. A determination is then made by the local pension board, and reviewed by the INPRS Board of Trustees, as to whether the member has a covered impairment and whether the impairment was incurred in the line of duty or not. The calculation for disability benefits is based on when the member was first hired, the type of impairment and other factors. In addition, the heirs or estate of a fund member may be entitled to receive $12,000 upon the member's death.

If a member dies while receiving retirement or disability benefits, there are provisions for the surviving spouse and child(ren) to receive a portion of the benefits. The member's surviving spouse is entitled to a monthly benefit equal to 60 percent of the member's monthly benefit during the spouse's lifetime. Each of the member's surviving child(ren) is entitled to a monthly benefit equal to 20 percent of the member's monthly benefit until the age of 18 or age 23 if a full-time student. If there is no eligible surviving spouse or child(ren), a dependent parent(s) may receive 50 percent of the member's monthly benefit during their lifetime.

(D) Judges' Retirement System

Plan Description

The Judges' Retirement System (JRS) is a single-employer defined benefit plan established to provide retirement, disability, and survivor benefits to judges and magistrates. JRS was established in 1953, and is governed through the INPRS Board of Trustees by IC 33-38-6, IC 33-38-7 (judges beginning service before September 1, 1985) and IC 33-38-8 (judges beginning service after August 31, 1985). Coverage is for any person who has served, is serving or shall serve as a regular judge or justice of the (1) Supreme Court of the state of Indiana, (2) Court of Appeals, (3) Indiana Tax Court, (4) Circuit Court of a Judicial Circuit, or (5) county courts including: Superior, Criminal, Probate, Juvenile, Municipal and County.

Membership

The Judges' Retirement System consists of two plans (the 1977 System and the 1985 System). The 1977 System includes all individuals who began service as a judge before September 1, 1985, unless the individual, within twenty days after becoming a judge, filed an irrevocable election not to participate in the 1977 System. The 1985 System covers all individuals who: (1) began service as a judge after August 31, 1985; and (2) are not participants in the 1977 System. Beginning January 1, 2011, full-time magistrates who were serving on July 1,2010, may elect to be members of the 1985 System. The 1985 System is mandatory for all new judges and beginning January 1, 2011, all new full-time magistrates.

As of June 30, 2012, the Judges' Retirement System membership consisted of:

Retired Members, Beneficiaries and Disabled Members Receiving Benefits	311
Terminated Vested Plan Members Entitled To But Not Yet Receiving Benefits	72
Terminated Non-Vested Plan Members Entitled To a Distribution of Contributions	28
Active Members: Vested and Non-Vested	361
Total	**772**
Total Covered Payroll for Active Members *(dollars in thousands)*	**$ 45,138**

Member contributions are established by statute at six (6) percent of total statutory compensation paid by the state of Indiana, deducted from the member's salary and remitted by the Auditor of State. However, no contribution is required and no such amounts shall be paid by the member for more than 22 years of service.

Employer contributions are actuarially determined and approved by the INPRS Board of Trustees and by the Indiana General Assembly as biennial appropriations from the state's General Fund. Indiana Code 33-38-6-17 provides that this appropriation include only funds sufficient to cover the aggregate liability of the fund for benefits to the end of the biennium on an actuarially funded basis. The statute also provides for remittance of docket fees and court fees which are considered employer contributions.

Retirement Benefits

A member vests after eight (8) years of creditable service. Judges who retire at or after age 65 with eight (8) years of creditable service (or are at least 55 years of age and the participant's age in years plus the participant's years of service total 85 or more) are entitled to an annual retirement benefit, payable monthly for life, in an amount calculated in accordance with statute.

The annual retirement benefit for a participant equals the product of the salary that was paid to the participant at the time of separation from service, multiplied by a percentage for years of service as defined in the statute. Applicable salary for participants in the 1985 Judges' System is defined in IC 33-38-8-14(e). The pension benefit for participants of the 1977 Judges' System is based on the salary being paid for the office that the participant held at the time of separation from service [IC 33-38-7-11(d)]. The statute provides for the percentage to be prorated for partial years of service. If the annual retirement benefit of a participant who began service as a judge before July 1, 1977, as computed per IC 33-38-7-11, is less than the benefit the participant would have received under IC 33-38-6 as in effect on June 30, 1977, the participant is entitled to receive the greater amount as the participant's annual retirement benefit.

A reduced amount is paid for early retirements that may be selected upon attainment of age 62. The participant's benefit is reduced by 0.1 percent for each month the member's age on the date the participant begins receiving a retirement benefit precedes the participant's 65th birthday.

The monthly pension benefits of the retired judges that were former participants in the 1977 System receive benefit increases whenever the salary of the position the retiree held at separation from service increases. Before fiscal year 2011, benefits of judges who are members of the 1985 System were tied to the salary of the position at the time the participant separated from service and did not increase if the salary of the position increased after the participant separated from service. Before fiscal year 2011, the General Assembly provided cost of living adjustment (COLA) increases to participants in the 1985 System on an ad hoc basis. Beginning after June 30, 2010, a participant in the 1985 System receives an increase in the monthly benefit of the same percentage by which the salary of the office of the participant held at separation from service increases. The percentage increase to the monthly benefit takes effect at the same time that the salary increase takes effect (IC 33-38-8-25). There was a COLA increase of 1.3 percent effective July 1, 2011, for eligible participants in the 1977 System and 1985 System.

Disability and Survivor Benefits

There is no vesting requirement for permanent disability benefits. For both the 1977 System and the 1985 System, a participant is considered permanently disabled if the INPRS Board of Trustees receives a written certification by at least two (2) licensed and practicing physicians appointed by the INPRS Board of Trustees. A participant receiving disability benefits must be reexamined at least once a year by at least two (2) physicians appointed by the INPRS Board of Trustees.

Surviving spouses or dependent child(ren) are entitled to benefits if the participant had qualified to receive a retirement or disability benefit, or had completed at least eight (8) years of service and was in service as a judge. The minimum survivor benefit is $12,000.

(E) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

Plan Description

The State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (E,G,&C Plan) is a single-employer defined benefit plan established to provide retirement, disability, and survivor benefits to certain employees of the (1) Indiana Department of Natural Resources, (2) Indiana Alcohol and Tobacco Commission and (3) any Indiana state excise police officer, Indiana state conservation enforcement officer, gaming agent or any gaming control officer who is engaged exclusively in the performance of law enforcement duties. The E,G,&C Plan was established in 1972 and is governed by IC 5-10-5.5.

Membership

As of June 30, 2012, the E,G,&C Plan membership consisted of:

Retired Members, Beneficiaries and Disabled Members Receiving Benefits	187
Terminated Vested Plan Members Entitled To But Not Yet Receiving Benefits	4
Terminated Non-Vested Plan Members Entitled To a Distribution of Contributions	61
Active Members: Vested and Non-Vested	468
Total	**720**
Total Covered Payroll for Active Members *(dollars in thousands)*	**$ 25,752**

Members are required by statute to contribute four (4) percent of the member's annual salary to the E,G,&C Plan. If a member leaves covered employment or dies before 15 years of creditable service, accumulated member contributions, plus interest as credited by the INPRS Board of Trustees, are distributed to the member, or to the designated beneficiary or the member's estate.

Retirement Benefits

Generally, retirement benefits vest after 15 years of creditable service. Officers becoming participants after age 50 are vested after completion of 10 years of service. A participant is entitled to an annual pension benefit, paid in equal monthly installments beginning on the participant's normal retirement date, equal to 25 percent of the participant's average annual salary. A participant who completes more than 10 years of creditable service is entitled to receive an additional amount equal to 1.67 percent of the participant's average annual salary for each completed year of creditable service over 10 years. However, a participant's annual pension benefit may not exceed 75 percent of the participant's average annual salary.

Each participant is required to retire on or before the first day of the month following the participant's 65th birthday. However, a participant who is hired after age 50 must retire upon the earlier of: (1) the first day of the month following the participant's 65th birthday; or (2) the first day of the month following the date the participant completes 15 years of creditable service. A participant, who is at least 55 years of age and the sum of the participant's years of creditable service and age in years equals at least 85, may retire and become eligible for full retirement benefits. In addition, a participant may elect full retirement benefits at age 50 with 25 years of service. A reduced benefit is provided for early retirements that are elected upon attainment of age 45 with at least 15 years of creditable service. The monthly benefit is reduced by 0.25 percent for each full month by which the participant's early retirement date precedes the participant's 60th birthday.

Any participant who terminates service before accumulating 15 years of creditable service may become a member of the Public Employees' Retirement Fund (PERF). Upon payment of contributions and interest required by the INPRS Board of Trustees, the withdrawing participant shall be entitled to transfer creditable service to PERF.

The monthly pension benefits for members in pay status are increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis. There was no COLA for the year ended June 30, 2012; however, eligible members did receive up to two (2) one-time checks in September 2011. The amount of the first one-time check ranged from $125 to $400, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2009, and who was entitled to receive a monthly benefit on July 1, 2010. The amount of the second one-time check ranged from $150 to $450, depending upon a member's years of service, and was for a member who retired or was disabled on or before January 1, 2011, and who was entitled to receive a monthly benefit on July 1, 2011.

Disability and Survivor Benefits

A participant who becomes permanently or temporarily disabled from performing all suitable and available work "on the force" for which the participant is or may be capable of becoming qualified, considering reasonable accommodation to the extent required by the Americans and Disability Act, is entitled to receive a disability benefit. The amount of the disability benefit paid to a participant depends on whether the disability arose in the line of duty, the degree of impairment as determined by INPRS Board of Trustees' medical authority, and the participant's monthly salary. A participant is entitled to receive creditable service for the time the participant receives disability benefits under a state disability plan established under IC 5-10-8-7.

If a participant has more than 15 years of creditable service at the time of death, survivor benefits are payable to the surviving spouse, parents, or dependent children, as nominated by the participant's written direction, acknowledged, and filed with the INPRS Board of Trustees. The surviving spouse or the parent(s) is entitled to an annual survivor's allowance for life equal to 50 percent of the amount the participant would have been entitled to if he/she had retired on the date of death. If nominated and eligible, surviving unmarried minor child(ren) are entitled to an annual survivor's allowance equal to 50 percent of the amount the participant would have been entitled to if he/she had retired, divided equally between or among all nominated and eligible children. This benefit will continue until the child reaches 18 years of age or marries, whichever occurs first.

(F) Prosecuting Attorneys' Retirement Fund

Plan Description

The Prosecuting Attorneys' Retirement Fund (PARF) is a single-employer defined benefit plan established to provide retirement, disability, and survivor benefits to prosecuting attorneys. PARF was established in 1989 and is governed through the INPRS Board of Trustees by IC 33-39-7. Coverage is for individuals who: (1) serve as a prosecuting attorney or a chief deputy prosecuting attorney; or (2) serve as the executive director or assistant executive director of the Indiana Prosecuting Attorneys Council or as a state-paid deputy prosecuting attorney. These individuals' salaries are paid from the General Fund of the state of Indiana.

Membership

As of June 30, 2012, the PARF membership consisted of:

Retired Members, Beneficiaries and Disabled Members Receiving Benefits		81
Terminated Vested Plan Members Entitled To But Not Yet Receiving Benefits		84
Terminated Non-Vested Plan Members Entitled To a Distribution of Contributions		165
Active Members: Vested and Non-Vested		219
Total		**549**
Total Covered Payroll for Active Members *(dollars in thousands)*	**$**	**21,705**

Members contribute six (6) percent of their salary to PARF. Members receive annual interest earnings on June 30 at a rate specified by the INPRS Board of Trustees on all amounts credited to the member as of June 30 of the preceding year in accordance with IC 33-39-7-14.

Retirement Benefits

A participant is entitled to a retirement benefit if the participant: (1) is at least age 62; (2) has at least eight (8) years of service credit; and (3) is not receiving salary for services currently performed. A member whose service ended prior to July 1, 2006 must have at least ten (10) years of service.

The retirement benefit of a participant who is at least age 65 is calculated by multiplying: (1) the highest annual salary paid to the participant before the participant's separation from service; by (2) a percentage based on the participant's years of service. The percentages range from 24 percent for eight (8) years of service to 60 percent for 22 or more years of service. If a participant is at least 62 years of age with at least eight (8) years of creditable service, a participant is entitled to receive a reduced annual retirement benefit that equals the benefit, as calculated above, reduced by 0.25 percent per month for each month the participant retires prior to age 65.

In addition, a PARF participant is a member of PERF. A PARF participant's retirement benefit is reduced by the amount of the employer-financed pension benefit that would be payable to the participant had the participant retired from PERF on the date of the participant's retirement from the fund. However, the benefits payable to a participant from the fund are not reduced by any payments made to the participant from the participant's

PERF annuity savings account. The state of Indiana has elected to pay the 3 percent employee contribution for the member's annuity savings account in the PERF plan.

Disability and Survivor Benefits

PARF also provides disability and survivor benefits. A participant who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the participant has qualified for social security disability benefits and has furnished proof of the qualification. The amount of the annual benefit payable to a participant for disability benefits is equal to the product of the annual salary that was paid to the participant at the time of separation from service multiplied by a percentage based on the participant's years of service. The percentages range from 40 percent for five (5) to 10 years of service to 50 percent for 20 or more years of service. These benefits are reduced by any benefits payable to the participant from PERF.

The surviving spouse of a participant is entitled to a benefit if, on the date of the participant's death, the participant: (1) was receiving benefits; (2) has completed at least eight (8) years of service and was in service as a prosecuting attorney or chief deputy prosecuting attorney, executive director or assistant executive director of the Indiana Prosecuting Attorneys Council, or as a state-paid deputy prosecuting attorney; or (3) had met the requirements for a disability benefit.

Regardless of the participant's age at death, the surviving spouse's benefit is equal to the greater of: (1) $7,000 annually; or (2) 50 percent of the amount of retirement benefit the participant was drawing at the time of death, or to which the participant would have been entitled had the participant retired and begun receiving retirement benefits on the date of death; reduced, if necessary, because the participant was not yet 65 and by the amounts, if any, payable to the surviving spouse from PERF as a result of the participant's death. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

(G) Legislators' Retirement System

Plan Description

The Legislators' Retirement System was established in 1989 by IC 2-3.5. The retirement system is for certain members of the General Assembly of the state of Indiana as specified by the provisions of the statute.

The Legislators' Retirement System is comprised of two (2) separate and distinct plans. The Legislators' Defined Benefit Plan (LEDB Plan) (IC 2-3.5-4), a single-employer defined benefit plan, applies to members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b). The Legislators' Defined Contribution Plan (LEDC Plan) (IC 2-3.5-5) applies to: (1) members of the General Assembly who were serving on April 30, 1989, and who filed an election under IC 2-3.5-3-1(b); (2) members of the General Assembly who are first elected or appointed after April 30, 1989; and (3) members of the General Assembly who: (a) served before April 30, 1989; (b) were not serving on April 30, 1989; and (c) are subsequently reelected or reappointed to the General Assembly.

Membership

As of June 30, 2012, the Legislators' Retirement System membership consisted of:

	Defined Benefit Plan	Defined Contribution Plan
Retired Members, Beneficiaries and Disabled Members Receiving Benefits	63	-
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	38	-
Terminated Non-Vested Plan Members Entitled To a Distribution	-	47
Active Members: Vested and Non-Vested	6	167
Total	**107**	**214**

Legislators' Defined Benefit Plan

The amount required to actuarially fund participants' retirement benefits, as determined by the INPRS Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund annually in equal installments in the month of July of each year of the biennium budget.

The LEDB Plan provides retirement, disability and survivor benefits. The LEDB Plan is closed to new entrants, as members of the General Assembly who began service after April 30, 1989, are not members of this plan.

A participant is entitled to an unreduced monthly retirement benefit if the participant is: (1) at least age 65 and has at least 10 years of service as a member of the General Assembly; (2) at least age 55 and whose years of service as a member of the General Assembly plus years of age equal at least 85; or (3) at least age 60 and has at least 15 years of service as a member of the General Assembly. To qualify for a monthly retirement benefit, the member: (1) must have terminated service as a member of the General Assembly; (2) has at least 10 years of service as a member of the General Assembly; and (3) is not receiving and is not entitled to receive a salary from the state.
The monthly retirement benefit is equal to the lesser of: (1) $40 multiplied by the number of years of service in the General Assembly completed before November 8, 1989, or (2) the highest consecutive three-year average annual salary of the participant under IC 2-3-1-1 at the date the participant's service as a member of the General Assembly is terminated, divided by 12.

A participant who has reached at least age 55, has terminated service as a member of the General Assembly, has at least 10 years of service as a member of the General Assembly, and is not receiving, nor is entitled to receive, a salary from the state of Indiana is eligible for early retirement with a reduced benefit. The reduction in the benefit is equal to: (1) 0.1 percent a month between ages 60 and 65; and (2) 5/12 percent a month between ages 55 and 60.

The monthly pension benefits for members in pay status are increased periodically as cost of living adjustments (COLA). COLA increases for the LEDB Plan are equal to the increase for the PERF Plan in accordance with IC 2-3.5-4-13 on an ad hoc basis and are generally based on date of retirement, and other eligibility factors. There was no COLA for the year ended June 30, 2012.

The LEDB Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service may retire for the duration of the disability if the member has qualified for social security disability and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. If a participant dies while receiving retirement benefits, or had completed at least 10 years of service as a member of the General Assembly, or was permanently disabled and receiving disability benefits from the system, the surviving spouse is entitled to receive survivor benefits. The benefits are for life and are equal to 50 percent of the amount of retirement benefits that the participant was receiving at the time of death or that the participant would have been entitled to receive at 55 years of age, or at the date of death, whichever is later. If there is not a surviving spouse, there are provisions for dependents to receive benefits.

Legislators' Defined Contribution Plan

Each participant in the LEDC Plan shall make employee contributions of five (5) percent of salary received for services rendered after June 30, 1989. The employer contribution prior to January 1, 2009, was equal to 20 percent of the annual salary received by each participant for services rendered after June 30, 1989, and was appropriated from the state of Indiana General Fund. Effective January 1, 2009, the employer contribution rate is established each year by the INPRS Board of Trustees and is confirmed by the State Budget Agency. This rate, by statute, cannot exceed the total contribution rate paid that year by the state to PERF for state employees. That state contribution rate is the sum of: (1) the state's employer contribution rate for state employees, and (2) the rate the state pays on behalf of state employees to their annuity savings accounts (3.0 percent).

Investments in the members' accounts are individually directed and controlled by plan participants who direct the investment of their account balances among several investment options of varying degrees of risk and return potential. There are nine (9) investment options available to LEDC Plan members: Defined Benefit Unitized Assets, Stable Value Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Small/Mid Cap Equity Fund, Large Cap Equity Index Fund, International Equity Fund and Target Date Funds. Members may make changes to their investment directions daily. Investments of the plan are reported at fair value.

A participant of the LEDC Plan who terminates service as a member of the General Assembly is entitled to withdraw both the employee and employer contributions to the LEDC Plan. The amount available for withdrawal is the fair market value of the participant's account on the payment date. Account balances are fully vested to the participants. The withdrawn amount can be paid in a lump sum, a partial lump sum, a monthly annuity as purchased by the INPRS Board of Trustees, or a series of monthly installment payments over 60, 120, or 180 months as elected by the participant.

If a participant dies while a member of the General Assembly or after terminating service as a member, but prior to withdrawing from the LEDC Plan, the participant's account is to be paid to the beneficiary(ies) or to the survivor(s) if there is no properly designated beneficiary, or if no beneficiary survives the participant. The amount to be paid is the fair market value of the participant's account (employer and employee contributions) on the payment date.

A member of the LEDB Plan, under certain circumstances, may also be a member of the LEDC Plan.

Note 2. Description of Non-Retirement Funds

(A) State Employees' Death Benefit Fund

Indiana Code 5-10-11 established the State Employees' Death Benefit program. Under the program, a death benefit of $50,000 is to be paid in a lump sum to the surviving spouse, or if there is no surviving spouse, to the surviving child(ren) (to be shared equally) of a state of Indiana employee who dies in the line of duty as defined in the statute.

The law provides that "the state may provide these benefits by purchasing group life insurance or by establishing a program of self-insurance." It was determined that a program of self-insurance would be established, and effective with the state's pay period ended October 23, 1993, the state assessed state agencies 0.1 percent of gross pay to fund this program. Due to the size of the fund and the infrequency of payments, collection of the assessment ceased in November 1999.

(B) Public Safety Officers' Special Death Benefit Fund

Indiana Code 5-10-10 established the Special Death Benefit Fund. The fund was established for the purpose of paying a lump sum death benefit of $150,000 to the surviving spouse or child(ren) of a public safety officer (as defined by IC 5-10-10-4) or other eligible officers (as defined by IC 5-10-10-4.5) who die in the line of duty. If there is no surviving spouse or child(ren), the benefit is paid to the parent(s) in equal shares. The fund consists of bail bond fees remitted under IC 35-33-8-3.2, payments under IC 5-10-10-4.5, and investment earnings of the fund.

(C) Pension Relief Fund

The Pension Relief Fund (PR Fund) was created by the Indiana General Assembly in 1977 (IC 5-10.3-11). The purpose of the PR Fund is to give financial relief to pension funds maintained by units of local government for their police officers' and firefighters' retirement plan benefits.

Funding for the PR Fund is derived from contributions from the state of Indiana from a portion of cigarette and alcohol taxes, a portion of the state's lottery proceeds, interest earned by the Public Deposit Insurance Fund, investment income earned, and appropriations from the General Assembly.

Distributions are made from the PR Fund to units of local government in two equal installments before July 1 and before October 2 of each year. Effective January 1, 2009, the distribution is determined by an estimate of the total amount of pension, disability and survivors benefits from the 1925 Police Pension Fund (IC 36-8-6), the 1937 Firefighters' Pension Fund (IC 36-8-7), and the 1953 Police Pension Fund (IC 36-8-7.5). The estimate is prepared by the actuary on a city-by-city basis, and on a departmental basis.

As defined by IC 36-8-8-20, the PR Fund also pays a lump sum line of duty death benefit of $150,000. As defined by IC 36-8-8-14.1, the benefit is paid to the following relative(s) of a fund member who dies in the line of duty: (1) to the surviving spouse; (2) if there is no surviving spouse, to the surviving child(ren) (to be shared equally); (3) if there is no surviving spouse or child(ren), to the parent(s) in equal shares.

In accordance with IC 5-10.3-11-6, separate accounts are maintained by INPRS for each unit of local government for amounts that have not been distributed to the local units. These amounts remain invested in the fund and are available to the units of local government at their request. As of June 30, 2012, units of local government had investments with a market value of approximately $4.5 million on deposit in the PR Fund.

Note 3. Summary of Significant Accounting Policies

(A) Reporting Entity

Established July 1, 2011, the Indiana Public Retirement System and the governing board of trustees merged the administration of the Public Employees' Retirement Fund (PERF) and the Teachers' Retirement Fund (TRF). INPRS is an independent body corporate and politic and is not a department or agency of the state, but is an independent instrumentality exercising essential government functions (Public Law 23-2011). For these reasons, INPRS is considered a component unit of the state of Indiana for financial statement reporting purposes.

The financial statements presented in this report represent only those funds for which the INPRS Board of Trustees has responsibility and are not intended to present the financial position or results of operations of the state of Indiana or all of the retirement and benefit plans administered by the state.

The following funds are included in the financial statements:

- Public Employees' Retirement Fund (PERF);
- Teachers' Retirement Fund (TRF);
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund);
- Judges' Retirement System (JRS);
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (E,G,&C Plan);
- Prosecuting Attorneys' Retirement Fund (PARF);
- Legislators' Defined Benefit Plan (LEDB Plan);
- Legislators' Defined Contribution Plan (LEDC Plan);
- State Employees' Death Benefit Fund;
- Public Safety Officers' Special Death Benefit Fund; and
- Pension Relief Fund (PR Fund).

See Notes 1 and 2 for descriptions of these funds.

(B) Basis of Accounting

The financial statements of INPRS have been prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with generally accepted accounting principles (GAAP) as applied to government units. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles. INPRS applies all applicable GASB pronouncements in accounting and reporting for its operations.

The INPRS Board of Trustees administers eight (8) pension trust funds [seven (7) Defined Benefit plans and one (1) Defined Contribution plan], two (2) death benefit funds accounted for as other employee benefit trust funds, and an investment trust fund. These fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

(C) Use of Estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, the Board makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(D) Reclassifications

Certain reclassifications have been made within the fiscal year 2011 financial statements to conform with the classifications for fiscal year 2012. All such changes had no impact on fiscal year 2011 or fiscal year 2012 total net position.

(E) Contributions Receivable

Contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Employers are not required to submit contributions until the month following the end of the quarter. The estimates for contributions receivable at year end for each of the retirement funds were calculated utilizing that fund’s contributions from the prior quarter, timing of June 2012 contributions received, or a combination of the two.

(F) Deposit and Investment Policies and Provisions

Oversight of INPRS’ assets is the responsibility of the INPRS Board of Trustees. Indiana law requires the Board to establish investment guidelines and limits on all types of investments and take other actions necessary to fulfill its duty as a fiduciary for all assets under its control. The INPRS Board of Trustees is required to diversify investments in accordance with the prudent investor standards.

At June 30, 2012, cash and investments of the funds were held by banks or trust companies under custodial agreements with INPRS. The INPRS Board of Trustees contracts with investment counsel, trust companies or banks to assist INPRS in its investment program. The Investment Policy Statement adopted by the INPRS

Board of Trustees and the asset allocation approved by the Board of Trustees contains target allocations and allowable ranges that are expected to meet target rates of return over a long period of time while minimizing risk. See Note 5 for more information.

Investment purchases and sales of securities are recorded as of their trade date. A summary of investments held is as follows:

(dollars in thousands)

Investment Type	6/30/2012 Fair Value	% of Total Investments
Short Term Investments (1)		
Cash at Brokers	$ 323,859	1.2%
Money Market Sweep Vehicle	1,749,484	6.6
Commercial Paper	3,000	0.0
U.S. Treasury Obligations	413,976	1.6
Non-U.S. Governments	3,720	0.0
Total Short Term Investments	**2,494,039**	**9.4**
Fixed Income Investments		
U.S. Governments	3,497,061	13.1
Non-U.S. Governments	723,737	2.7
U.S. Agencies	1,592,872	6.0
Corporate Bonds	4,641,859	17.3
Asset-Backed Securities	1,217,305	4.6
Total Fixed Income Investments	**11,672,834**	**43.7**
Equity Investments		
Domestic Equities	3,907,881	14.7
International Equities	2,373,237	8.9
Total Equity Investments	**6,281,118**	**23.6**
Other Investments		
Private Equity	2,655,913	10.0
Absolute Return	1,221,243	4.6
Private Real Estate	964,900	3.6
Risk Parity	1,371,013	5.1
Derivatives	6,174	0.0
Total Other Investments	6,219,243	23.3
Total Investments	**$ 26,667,234**	**100.0%**

(1) Short Term Investments include highly liquid assets that are an integral part of the pension investments.

(G) Method Used to Value Investments

Plan Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Many factors are considered in arriving at that value. International equities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. Asset-backed securities have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities is based on appraisals plus fiscal year-to-date capital expenditures. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Such valuations generally reflect discount for liquidity and considers variables such as financial performance of investments, discounted cash flow analysis, recent sales prices of comparable investments, and other pertinent information.

(H) Investment Unit Trust Accounting

Unit trust accounting involves assigning units to each fund based on the share of the fund's investment fair value to the total fair value of the consolidated investments. The per-unit value of all participating funds will increase or (decrease) based on investment earnings or (losses) and appreciation or (depreciation). Deposits and withdrawals for each fund change the number of units held by each fund. These changes are recorded at the unit value on the transaction date. Investment earnings or losses and fees for the total consolidated fund are allocated to each of the pension funds on a daily basis using the pro rata fair value share.

In accordance with GASB criteria for internal investment pools, the assets and liabilities are allocated pro rata to each of the retirement funds within the pool. This includes securities lending collateral, repurchase agreements, investment receivables, interest and dividend receivables, investment payables, securities lending obligations, securities sold under agreement to repurchase and the investment holdings. The assets and liabilities are recorded in the Statement of Fiduciary Net Position in the Unitized Investment Allocation column and each fund's unit value is recorded on the Other Investments line.

Prior to the merger of PERF and TRF, only the PERF defined benefit assets were unitized. Effective January 1, 2012, the INPRS Board of Trustees approved unitizing certain investment assets in order to provide for a consolidated rate of return and to invest in a diversified manner.

The INPRS Board of Trustees unitized, into a consolidated pool, the defined benefit assets of the following retirement funds and pension systems known collectively as the Consolidated Defined Benefit Assets:

- State Teachers' Retirement Fund (TRF)
- Public Employees' Retirement Fund (PERF)
- 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund)
- Judges' Retirement Fund (JRS)
- Legislators' Defined Benefit Plan (LEDB)
- State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Fund (E,G&C Plan)
- Prosecuting Attorneys' Retirement Fund (PARF)

The INPRS Board of Trustees also unitized into a separate consolidated pool the assets comprising the PERF Guaranteed Fund and the TRF Guaranteed Fund, also known as the Guaranteed Fund Assets. In addition, the State Employees' Death Benefit Fund and the Public Safety Officers' Special Death Benefit Fund were consolidated into a pool effective September 2011.

A summary of investments held by unitized value and fund is as follows:

(dollars in thousands)

Trust Fund	Consolidated Defined Benefit Assets	ASA Guaranteed Fund Assets	All Other ASA/ Defined Contribution Assets (1)	Death Benefit Funds	Pension Relief Fund	Total INPRS Unitized Investments
Public Employees' Retirement Fund	$ 9,398,222	$ 2,095,235	$ 632,683	$ -	$ -	$ 12,126,140
Teachers' Retirement Fund	6,159,725	1,851,305	999,404	-	-	9,010,434
1977 Police Officers' and Firefighters' Pension and Disability Fund	3,776,158	-	-	-	-	3,776,158
Judges' Retirement System	262,113	-	-	-	-	262,113
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan	76,090	-	-	-	-	76,090
Prosecuting Attorneys' Retirement Plan	27,610	-	-	-	-	27,610
Legislators' Defined Benefit Plan	3,394	-	-	-	-	3,394
Legislators' Defined Contribution Plan	9,949	-	14,236	-	-	24,185
State Employees' Death Benefit Fund	-	-	-	7,683	-	7,683
Public Safety Officers' Special Death Benefit Fund	-	-	-	4,468	-	4,468
Pension Relief Fund	-	-	-	-	14,116	14,116
Total INPRS Unitized Investments	**$ 19,713,261**	**$ 3,946,540**	**$ 1,646,323**	**$12,151**	**$ 14,116**	**$25,332,391**

(1) All other ASA/defined contributions consist of PERF and TRF ASA assets which are not invested into the Guaranteed Fund plus other Legislators' defined contributions that are not invested into the Consolidated Defined Benefit Assets.

(I) Investments Receivable and Investments Payable

Investments receivable and investments payable consist primarily of receivables or payables for securities purchased or sold, but not settled as of June 30, 2012.

(J) Capitalized Assets

Capital assets, fixed and intangible, are capitalized at historical cost when total cost is $20,000 or more. The cost of items like normal maintenance, repairs, and software license agreements that do not add to the value of the assets or materially extend assets' lives are not capitalized. Depreciation and amortization are calculated using straight-line method over the estimated useful life of assets exceeding one (1) year life; depreciation and amortization expenses are recognized in administrative expenses.

The following are net capitalized asset values as of June 30, 2012:

(dollars in thousands)

Capitalized Assets	Gross Cost	Accumulated Depreciation Amortization	Net Capitalized Assets
Land	$ 547	$ -	$ 547
Building	2,893	(1,143)	1,750
Equipment	87	(87)	-
Software	11,662	(3,163)	8,499
Leasehold Improvements	156	(23)	133
Total	**$ 15,345**	**$ (4,416)**	**$ 10,929**

INPRS owns and occupies the land and building at 143 W. Market Street, Indianapolis, IN. The building is being depreciated over 20 years.

All capitalized equipment is currently fully depreciated. No new equipment was capitalized during the current fiscal year.

INPRS is in the process of implementing new computer systems. Amortization is computed over five (5) years when assets are placed in service. Costs for purchase and development of computer software meeting minimum cost and service life estimates are capitalized as incurred. Two (2) new systems were placed in service during the current fiscal year.

INPRS has capitalized leasehold improvements made to office space leased at One North Capitol Avenue, Indianapolis, IN. Amortization for these leasehold improvements is calculated over 10 years.

(K) Benefits and Distributions

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' annuity savings accounts. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

(L) Interfund Balances and Transfers

Total interfund balances represent routine transfers between funds for initial retirements and payments of shared administrative expenses between funds as part of the agency's operations. Payments of interfund balances are funded on a routine basis between funds.

When statute allows, transfers of member and employer reserves are made between funds when a retiring member has service in multiple funds. Once a member selects which fund he/she wishes to retire from, creditable service covered by the other fund and the related annuity savings account (ASA) balance will be transferred to the fund selected in calculating the member's retirement benefit. At the time the retirement is calculated, the fund selected sets up a receivable from the other fund for both the ASA account balance and the calculated reserve for the service credit brought in from the other fund. This receivable is included as a line item in the Receivables section of Statement of Fiduciary Net Position. On the reverse side, a payable is recognized in the Liabilities section of the Statement of Fiduciary Net Position.

(M) Compensated Absences

INPRS' full-time employees accumulate earned but unused vacation, sick pay, and personal time each pay period. Bonus vacation days are awarded upon completion of five (5), 10 and 20 years of employment with INPRS and/or the state of Indiana. Upon separation from service, employees in good standing will be paid for a maximum of 30 unused vacation leave days.

Vacation and personal leave are reported as part of the Salaries and Benefits Payable line in the Liabilities section of the Statement of Fiduciary Net Position. No liability is reported for unpaid accumulated sick leave.

(N) Administrative Expenses

An annual budget for the administrative expenses of INPRS is reviewed and approved by the INPRS Board of Trustees. Administrative expenses are paid from plan assets and investment earnings.

The PERF plan pays the shared administrative expenses of all the funds. At June 30, a receivable is established in the PERF plan and a payable in the other funds for the amount due to the PERF plan for the other funds' administrative expenses. The payable and receivable are settled routinely.

(O) Federal Income Tax Status

Plans administered by INPRS qualify under Section 401(a) of the Internal Revenue Code (IRC) and are exempt from federal income taxes under Section 501(a) of the IRC.

(P) Reserves and Designations

The following are the legally required reserves.

1. Member Reserve – The member reserve represents member contributions made by or on behalf of the members plus any interest or earnings, less amounts distributed or transferred to the Benefits in Force reserve for retirement, disability, or other benefits. For the PERF and TRF plans, this reserve includes the members' annuity savings accounts. Member reserves are fully funded.

2. Employer Reserve – This reserve consists of the accumulated employer contributions, plus earnings, less transfers made to the Benefits in Force reserve of the actuarial pension cost for retirement, disability, or other benefits. The funding status of the employer reserve is outlined in Note 10 and the accompanying Required Supplementary Information.

3. Benefits in Force – This reserve represents the actuarially determined present value of future benefits for all members who are currently retired or disabled and survivors of members who died in service. The accumulated contributions of the members who elect to annuitize their annuity savings accounts and the actuarial pension cost are transferred to the reserve upon retirement, disability, or death. This reserve is fully funded based on the latest actuarial valuation.

4. Undistributed Investment Income Reserve – This reserve is credited with all investment earnings. Interest transfers are made periodically during the year to the other reserves as allowed or required by the individual funds' statutes. The transfers are at rates established by the INPRS Board of Trustees, statutes or the actual earning rates of the investment options, depending on the statutes of the individual funds. Any remaining balance (positive or negative) is transferred to the employer reserve and allocated to the employers of the funds.

The following are the balances of the reserves as of June 30, 2012:

(dollars in thousands)

Retirement Funds	Member Reserve	Employer Reserve	Benefits in Force	Undistributed Income	Total Reserves
PERF	$ 2,786,848	$ 4,175,350	$ 5,281,557	$ -	$ 12,243,755
TRF	2,873,415	2,609,642	3,594,002	-	9,077,059
1977 Fund	739,192	2,166,540	911,281	-	3,817,013
Judges' Retirement System	28,401	51,332	182,593	-	262,326
E,G,&C Plan	6,800	27,049	42,694	-	76,543
PARF	23,761	(11,644)	15,572	-	27,689
Legislators' Retirement System:					
LEDB Plan	N/A	687	2,698	-	3,385
LEDC Plan	25,579	N/A	N/A	-	25,579

(Q) PERF Annual Pension Cost and Net Pension Obligation

PERF is a discretely presented component unit of the state of Indiana, and PERF employees are combined with the state of Indiana for actuarial purposes.

The Annual Pension Cost and Net Pension Obligations as of June 30, 2012, and the historical trend information for the state of Indiana PERF Defined Benefit retirement plan are as follows:

Annual Pension Cost and Net Pension Obligation *(dollars in thousands)*:	
Annual Required Contribution	$ 183,389
Interest on Net Pension Obligation	404
Adjustment to Annual Required Contribution	(465)
Annual Pension Cost	183,328
Actual Employer Contributions	138,328
Increase (Decrease) in Net Pension Obligation	45,000
Net Pension Obligation, Beginning of Year	5,773
Net Pension Obligation, End of Year	**$ 50,773**
Memo: State Contribution Rate – FY2012	**8.6%**

Three-Year Trend Information
(dollars in thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation
June 30, 2012	$ 183,328	75.5%	$ 50,773
June 30, 2011	176,882	65.1	5,773
June 30, 2010	118,839	93.9	(55,877)

(R) Adoption of New Accounting Standards

INPRS reviewed GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53), which is effective for fiscal years beginning on or after June 15, 2011. There was no impact on the INPRS' financial statements with the implementation of GASB Statement No. 64, as none of INPRS' derivative transactions meet the criteria for hedge accounting treatment.

The following statements are under review, and if applicable, will be adopted by INPRS for the fiscal year ending June 30, 2013.

- Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, which is effective for fiscal years beginning on or after December 15, 2011.
- Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34, effective for fiscal years beginning on or after June 15, 2012.
- Statement No. 62, Derivative Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, effective for fiscal years beginning on or after December 15, 2011.
- Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective for fiscal years beginning on or after December 15, 2011.

The following statements are under review, and if applicable, will be adopted by INPRS for the fiscal year ending June 30, 2014.

- Statement No. 65, Items Previously Reported as Assets and Liabilities, effective for fiscal years beginning on or after December 15, 2012.
- Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62, effective for fiscal years beginning on or after December 15, 2012.
- Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, effective for fiscal years beginning or after June 15, 2013.

The following statement is under review, and if applicable, will be adopted by INPRS for the fiscal year ended June 30, 2015.

- Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, effective for fiscal years beginning on or after June 15, 2014.

Note 4. Contributions Required and Contributions Made

Overview

In summary, the employer contribution rates for all of the INPRS defined benefit plans are actuarially determined, except for the TRF Pre-1996 Account. The TRF Pre-1996 Account is funded on a pay-as-you-go basis as described in the Teachers' Retirement Fund portion of this note below. For the other defined benefit retirement plans, the required employer contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation.

The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they come due. Employer contribution rates for fiscal year 2012 were determined by using the fiscal year 2010 actuarial valuation results projecting forward payroll for fiscal year 2012.

The unfunded actuarial accrued liability on any valuation date is the present value of projected future benefits to be paid less the actuarial value of assets (AVA). Actuarial assets are calculated using an asset smoothing method of investment gains and losses on the market value of assets (MVA). The asset smoothing method is used to reduce the year-over-year volatility in the calculation of the funded status and employer contribution rates. INPRS applies a four-year smoothing method, with a 20 percent corridor, where the AVA cannot be more than 120 percent or less than 80 percent of the MVA after the four-year smoothing of gains and losses is applied.

Except for the LEDB Plan, the actuarial cost method used in the valuation is the entry age normal cost method. Under this method, costs are spread evenly over a member's career. For the LEDB Plan, the actuarial cost method used is the Traditional Unit Credit method, since this is a frozen plan to new entrants and benefits are no longer increasing.

Annual actuarial costs consist of two (2) components, the normal cost and an amortized amount of the plan's unfunded liability. Normal cost represents the estimated amount of benefits earned during the current year and the unfunded liability amount is amortized over a 30-year closed period. There two (2) components make up the development of the employer contribution rates.

(A) Public Employees' Retirement Fund

The state of Indiana and any political subdivision that elects to participate in PERF is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. During fiscal year 2012, all participating employers were required to contribute 8.6 percent of covered payroll for State members. For political subdivisions, an average contribution rate of 7.9 percent was required from employers during the period of July 1 – December 31, 2011, and an average contribution rate of 8.8 percent was required for the period of January 1 – June 30, 2012.

PERF members contribute three (3) percent to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. Upon retirement, members may choose to annuitize the amount of their annuity saving accounts to be combined with their monthly pension amount.

(B) Teachers' Retirement Fund

The TRF Pre-1996 Account is funded on a pay-as-you-go basis for employees hired prior to July 1, 1995, and who have maintained continuous employment with the same school corporation or covered institution since that date. State appropriations are made in accordance with IC 5-10.4-2-4 for each fiscal year. Currently, a three (3) percent year-over-year increase is being provided through state appropriations. If the actual pension benefit payout for the fiscal year exceeds the amount appropriated, the difference is paid from the Pension Stabilization Fund, which was established according to IC 5-10.4-2-5.

The employer contribution rate for the TRF 1996 Account (i.e., members hired on or after July 1, 1995; or hired before July 1, 1995, and prior to June 30, 2005, were either hired by another school corporation or institution covered by the Fund or were re-hired by a covered prior employer) is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. During fiscal year 2012, all participating employers in the TRF 1996 Account were required to contribute 7.5 percent of covered payroll.

TRF members contribute three (3) percent to their annuity savings account, which is not used to fund the defined benefit pension. The employer may elect to make the contributions on behalf of the member. In addition, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their annuity savings accounts. Upon retirement, members may choose to annuitize the amount in their annuity savings accounts to be combined with their monthly pension amount.

(C) 1977 Police Officers' and Firefighters' Pension and Disability Fund

The funding policy for the 1977 Fund requires quarterly remittances of member and employer contributions based on percentages of the salary of a first class officer or firefighter rather than actual payroll. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 36-8-8-6. As the 1977 Fund is a cost-sharing system, all risks and costs, including benefit costs, are shared proportionally by the participating employers. During fiscal year 2012, all participating employers were required to contribute 19.5 percent during the period of July 1 – December 31, 2011 and 19.7 percent during the period of January 1 – June 30, 2012 of the salary of a first class officer or firefighter.

The member contribution rate is not actuarially determined but was established by statute IC 36-8-8-8 at six (6) percent of the salary of a first class officer or firefighter. Each fund member shall contribute during the period of the fund member's employment or for 32 years, whichever is shorter. The employer may pay all or a part of the contribution for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the fund member completes 20 years of active service. The INPRS Board of Trustees shall return to the fund member in a lump sum the fund member's contributions plus interest as determined by the INPRS Board of Trustees in accordance with IC 36-8-8-8.

(D) Judges' Retirement System

The funding policy for the Judges' Retirement System is in accordance with statute IC 33-38-6-17 that requires an appropriation, determined by the INPRS Board of Trustees from the state of Indiana General Fund, for each biennium to the Judges' Retirement System computed on an actuarially funded basis and the recommendation of the actuary.

The member contribution rate is not actuarially determined but was established by statute IC 33-38-7-10 (1977 System) and IC 33-38-8-11 (1985 System) at six (6) percent of salary. Each fund member shall contribute during the period of the fund member's employment, or for 22 years, whichever is shorter. The employer may pay all or a part of the contributions for the member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before being eligible for a retirement benefit. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest at a rate specified by the INPRS Board of Trustees in accordance with IC 33-38-7-13 (1977 System) and IC 33-38-8-12 (1985 System).

(E) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

The funding policy for the E,G,&C Plan is in accordance with statute IC 5-10-5.5-8.5. The employer contribution rate is actuarially determined. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation. During fiscal year 2012, all participating employers were required to contribute 20.75 percent of covered payroll.

The member contribution rate is not actuarially determined but was established by statute IC 5-10-5.5-8 at four (4) percent of a participant's salary to be contributed to the participant's savings account. The employer may pay all or a part of the contribution for the participant. Member contributions are used to fund a portion of the defined benefit payment. Any participant who terminates employment before accumulating 15 years of creditable service and before attaining the age of 45 shall be entitled to a lump sum refund of all contributions in the participant's savings account plus accumulated interest as determined by the INPRS Board of Trustees in accordance with IC 5-10-5.5-17.

(F) Prosecuting Attorneys' Retirement Fund

The funding policy for PARF is in accordance with statute IC 33-39-7-23 that requires an appropriation, determined by the INPRS Board of Trustees from the state of Indiana General Fund, for each biennium to PARF computed on an actuarially funded basis and the recommendation of the actuary.

The member contribution rate is not actuarially determined but was established by statute IC 33-39-7-12 at six (6) percent of salary. The employer may elect to pay the contributions for a member. Member contributions are used to fund a portion of the defined benefit payment unless the member ends employment other than by death or disability before the member completes eight (8) years of creditable service. The INPRS Board of Trustees shall return to the fund member an amount equal to the total sum contributed to the fund plus interest at a rate specified by the INPRS Board of Trustees in accordance with IC 33-39-7-13.

(G) Legislators' Retirement System

For the LEDB Plan, the funding policy is in accordance with statute IC 2-3.5-4-9 and IC 2-3.5-4-10. The amount required to actuarially fund participants' retirement benefits, as determined by the INPRS Board of Trustees on the recommendation of the actuary, is to be appropriated from the state of Indiana General Fund for each biennium.

For the LEDC Plan, each participant is required to contribute five (5) percent of annual salary in accordance with statute IC 2-3.5-5-4. In addition, the state of Indiana is required by statute IC 2-3.5-5-5.5 to contribute a percentage of the member's annual salary on behalf of the participant as determined by INPRS Board of Trustees and confirmed by the State Budget Agency each year. Effective January 1, 2012, the rate was established at 11.6 percent.

Note 5. Deposits and Investments

Investment Guidelines and Limitations

The Indiana General Assembly enacted the prudent investor standard to apply to the INPRS Board of Trustees and govern all its investments. Under statute (IC 5-10.3-5-3(a)) for PERF and (IC 5-10.4-3-10(a)) for TRF, the Board of Trustees must "invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board of Trustees also is required to diversify such investments in accordance with the prudent investor standard.

Within these governing statutes, the INPRS Board of Trustees has broad authority to invest the assets of the plans. The INPRS Board of Trustees utilizes external investment managers, each with specific mandates to achieve the investment objectives of the retirement funds. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled accounts, mutual funds or other structures acceptable to the INPRS Board of Trustees. An asset allocation review is conducted periodically.

The new strategic asset allocation for the Consolidated Defined Benefit Assets was approved by the INPRS Board of Trustees in October 2011, and is incorporated in the new INPRS Investment Policy (effective January 1, 2012) as follows:

Global Asset Classes	Target Allocation	Target Range
Public Equity	22.5%	20.0% to 25.0%
Private Equity	10.0%	7.0% to 13.0%
Fixed Income - Ex Inflation-Linked	22.0%	19.0% to 25.0%
Fixed Income - Inflation-Linked	10.0%	7.0% to 13.0%
Commodities	8.0%	6.0% to 10.0%
Real Estate	7.5%	4.0% to 11.0%
Absolute Return	10.0%	6.0% to 14.0%
Risk Parity	10.0%	5.0% to 15.0%

Contributions and asset reallocation in the PERF and TRF Annuity Savings Accounts and the Legislators' Defined Contribution Plan (LEDC) are directed by the members in each plan and as such, the asset allocation will differ from that of the Consolidated Defined Benefit Assets.

The Pension Relief Fund (PR Fund) is invested 100 percent in a money market fund. The State Employees' Death Benefit Fund and the Public Safety Officers' Special Death Benefit Fund are 100 percent invested in fixed income securities benchmarked against Barclays Capital U.S. Government Credit Index.

The following key factors are used in the analysis of the investment performance of the retirement funds:

- Net of fees, 10-year rolling annual rate of return equal to the target rate of return for the retirement funds.
- Net of fees, 1-year and 3-year rolling investment rate of return of the retirement funds, no less than a weighted average of benchmark indices which best describe the retirement funds' asset allocation.
- Net of fees, 3-year and 5-year Sharpe Ratio of the retirement funds, no less than a weighted average of benchmark indices' Sharpe Ratio which best describe the retirement funds' asset allocation.

Custodial Credit Risk

Deposits, investment securities, and collateral securities are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, INPRS will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to risk if the securities are uninsured, are not registered in the name of INPRS and are held by either the counterparty or the counterparty trust department's agent, but not in INPRS' name.

Per IC 5-10.3-5-4(a) and IC 5-10.3-5-5 for PERF and IC 5-10-4-3-14(a)) and IC 5-10.4-3-13 for TRF, securities are required to be held for the fund under custodial agreements. INPRS' custody agreement with the custodian requires that the custodian segregate the securities on the custodian's books and records from the custodian's own property. In addition, any investment manager for INPRS is not allowed, under any circumstances, to take possession, custody, title, or ownership of any managed assets.

There was no custodial credit risk for investments including investments related to securities lending collateral as of June 30, 2012.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the demand deposit accounts are carried at cost and are insured up to $250 thousand for each institution. Deposits in the demand accounts held in excess of $250 thousand are not collateralized. Deposits with the Indiana Treasurer of State are entirely insured. Deposits held with brokers and counterparties are carried at cost and are not insured or collateralized.

(dollars in thousands)

Cash Deposits	Total
Demand Deposit Account – Bank Balances	$ 12,684
Held with Treasurer of State	15,451
Held with Counterparties	10
Held with Brokers	323,859
Total	**$ 352,004**

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The longer the maturity, the more the value of the fixed-income investment will fluctuate with interest rate changes. The INPRS Investment Policy Statement recognizes interest rate risk as a market risk factor that is monitored on an absolute and relative basis.

As of June 30, 2012 the debt securities had the following duration information:

(dollars in thousands)

Debt Security Type	Fair Value 6/30/2012	% of All Debt Securities	Portfolio Weighted Average Effective Duration (Years)
Short Term Investments			
Cash at Brokers	$ 323,859	2.3%	-
Money Market Sweep Vehicle	1,749,484	12.4	0.01
Commercial Paper	3,000	0.0	0.01
U.S. Treasury Obligations	413,976	2.9	-
Non-U.S. Government	3,720	0.0	-
Total Short Term Investments	**2,494,039**	**17.6**	
Fixed Income Investments			
U.S. Governments	3,497,061	24.7	1.78
Non-U.S. Government	723,737	5.1	0.43
U.S. Agencies	1,589,888	11.2	0.42
Corporate Bonds	3,451,561	24.4	1.12
Asset-Backed Securities	1,141,669	8.1	0.19
Duration Not Available	1,268,918	8.9	N/A
Total Fixed Income Investments	**11,672,834**	**82.4**	
Total Debt Securities	**$ 14,166,873**	**100.0%**	

The $1,269 million, for which no duration was available, is primarily made up of commingled debt funds.

Credit Risk

The credit risk of investments is the risk that the issuer will default and not meet their obligations. The INPRS Investment Policy Statement recognizes credit (quality) risk as a market and strategic risk factor that is monitored on an absolute and relative basis.

The quality rating of investments in debt securities as described by Moody's at June 30, 2012 is as follows:

(dollars in thousands)

Moody's Rating	Short Term Investments	Debt Securities	Total	% of All Debt Securities
Aaa	$ 413,976	$ 6,077,018	$ 6,490,994	45.7%
U.S. Government Guaranteed	-	433,768	433,768	3.1
Aa	-	363,980	363,980	2.6
A	3,000	1,131,046	1,134,046	8.0
Baa	-	1,643,343	1,643,343	11.6
Ba	-	224,041	224,041	1.6
B	-	151,288	151,288	1.1
Below B	-	61,090	61,090	0.4
Unrated	2,077,063	1,587,260	3,664,323	25.9
Total	**$ 2,494,039**	**$ 11,672,834**	**$ 14,166,873**	**100.0%**

The $3,664 million not rated by Moody's is primarily in the following security types: cash at broker, money market sweep vehicles, asset-backed securities, commercial mortgages, CMO/Remics and commingled debt funds.

Concentration of Credit (Issuer) Risk

Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. The INPRS Investment Policy Statement recognizes issuer risk as a strategic risk factor that is monitored on an absolute and relative basis.

INPRS Investment Policy Statement has placed an upper limit on the concentration of assets placed with an investment manager.

No investment manager shall manage more than 10 percent of the system's assets in actively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager shall be allowed to manage in excess of 15 percent of the systems' assets in actively managed portfolios without Board approval.

No investment manager shall manage more than 15 percent of the system's assets in passively managed portfolios at the time of funding. Through capital appreciation and additional purchases, no investment manager shall be allowed to manage in excess of 20 percent of the system's assets in passively managed portfolios without Board approval.

No investment manager shall manage more than 25 percent of the system's assets in a combination of actively and passively managed portfolios.

At June 30, 2012, there was no concentration of credit (issuer) risk for the Consolidated Defined Benefit Assets.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. INPRS' foreign currency exposure is focused primarily in international equity holdings.

The INPRS Investment Policy Statement recognizes foreign exchange risk and the impact on incremental risk and return is assessed based on overall portfolio exposure. Unless otherwise approved by the Board, management of foreign currency exposure will only be implemented (1) by an Investment Manager on its Portfolio when the Investment Manager possesses recognized foreign exchange experience or (2) by an overlay manager or other third-party expert for a specific Portfolio or Retirement Fund. Any hedging strategy recommendation will be presented to the Board for approval and incorporated into the benchmark. The management and implementation of Board approved hedging activities will be implemented by the CIO, with the advice of the Executive Director and Consultants who are approved by the Board.

INPRS has exposure to foreign currency fluctuation as follows:

(dollars in thousands)	Foreign Currency Held at June 30, 2012					
Currency:	**Short Term Investments**	**Debt Securities**	**Equity Securities**	**Other Investments**	**Grand Total**	**% of Total**
Australian Dollar	$ 2,206	$ 16,093	$ 76,300	$ -	$ 94,599	0.4%
Brazilian Real	250	12,111	36,765	-	49,126	0.2
British Pound Sterling	670	143,544	295,294	3,248	442,756	1.7
Canadian Dollar	263	95,895	90,037	-	186,195	0.7
Chilean Peso	-	1,332	-	-	1,332	0.1
Colombian Peso	-	2,215	678	-	2,893	0.0
Czech Koruna	27	-	3,023	-	3,050	0.0
Danish Krone	27	-	20,269	-	20,296	0.1
Egyptian Pound	13	-	551	-	564	0.0
Euro Currency Unit	2,010	306,522	488,023	190,809	987,364	3.7
Hong Kong Dollar	84	-	121,300	-	121,384	0.5
Hungarian Forint	10	-	483	-	493	0.0
Indian Rupee	-	-	14,996	-	14,996	0.1
Indonesian Rupiah	79	-	5,729	-	5,808	0.0
Israeli Shekel	14	-	2,489	-	2,503	0.0
Japanese Yen	3,370	66,528	330,794	-	400,692	1.5
Korean Won	397	-	58,971	-	59,368	0.2
Malaysian Ringgit	4	-	7,637	-	7,641	0.0
Mexican Peso	4,234	28,102	8,549	-	40,885	0.2
New Zealand Dollar	12	7,899	833	-	8,744	0.0
Norwegian Krone	22	-	25,827	26,845	52,694	0.2
Philippine Peso	8	10,147	1,843	-	11,998	0.0
Polish Zloty	-	7,128	2,264	-	9,392	0.0
Singapore Dollar	211	-	37,633	-	37,844	0.1
South African Rand	44	-	38,869	-	38,913	0.1
Swedish Krona	17	37,754	69,079	-	106,850	0.4
Swiss Franc	1,164	-	114,578	-	115,742	0.4
Taiwan Dollar	646	-	34,721	-	35,367	0.1
Thai Baht	2	-	17,926	-	17,928	0.1
Turkish Lira	42	-	23,619	-	23,661	0.1
Held in Foreign Currency	15,826	735,270	1,929,080	220,902	2,901,078	10.9
Held in U.S. Dollar	2,478,213	10,937,564	4,352,038	5,998,341	23,766,156	89.1
Total	**$ 2,494,039**	**$ 11,672,834**	**$ 6,281,118**	**$ 6,219,243**	**$ 26,667,234**	**100.0%**

Securities Lending

Indiana Code 5-10.2-2-13(d) provides that the INPRS Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which certain securities held by the custodian on behalf of INPRS may be loaned. The statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower and must be maintained at no less than the total market value of the loaned securities.

The purpose of such a program is to provide additional revenue for the Consolidated Defined Benefits Assets. The INPRS Investment Policy Statement requires that collateral securities and cash be initially pledged at 102 percent of the market value of the securities lent for domestic securities and 105 percent for international securities. No more than 40 percent of the Consolidated Defined Benefit Assets may be lent at one time. The custodian bank and/or its securities lending sub-agents provide 100 percent indemnification of the Consolidated Defined Benefit Assets against borrower default, overnight market risk and failure to return loaned securities. Securities received as collateral cannot be pledged or sold unless the borrower defaults. INPRS retains the market value risk with respect to the investment of the cash collateral.

Cash collateral investments are subject to the investment guidelines specified by the INPRS Investment Policy Statement. It states that the maximum weighted average days to maturity may not exceed 60. The securities lending agent matches the maturities of the cash collateral investments with stated securities loans' termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

(dollars in thousands)

Securities Lending as of June 30, 2012	
Market value of securities on loan	$ 1,692,637
Fair value of cash and non-cash collateral by investment type:	
U.S. Governments	$ 1,077,653
Domestic Equities	486,010
Corporate Bonds	104,316
International Equities	66,305
Fair value of cash and non-cash collateral	1,734,284
Fair value of non-cash collateral that is not included in the Statements of Fiduciary Plan Net Position	836,553
Fair value of cash collateral (liability to borrowers)	897,731
Fair value of reinvested cash collateral by type:	
Commercial Paper	376,699
Repurchase Agreements	248,954
Floating Rate Notes	139,744
Certificate of Deposits	132,334
Fair value of reinvested cash collateral	897,731
Net unrealized gain	$ -

The quality rating of the reinvested cash collateral investments as described by Standard and Poor's at June 30, 2012 is as follows:

(dollars in thousands)

Standard and Poor's Rating		Fair Value of Reinvested Cash Collateral	Percent of Portfolio
A-1 and A-1+	$	507,045	56.5%
AA+		10,636	1.1
AA-		114,552	12.8
A+		11,419	1.3
A		3,115	0.3
Unrated		250,964	28.0
Total	**$**	**897,731**	**100.0%**

The majority of the unrated reinvested cash collateral investments consist of repurchase agreements.

Repurchase Agreements

A repurchase agreement is an agreement in which INPRS transfers cash to a broker-dealer or financial institution. The broker dealer or financial institution transfer securities to INPRS and promises to repay the cash plus interest in exchange for the same securities. Repurchase agreements are assets with the security collateral held at INPRS' custodian bank.

A reverse repurchase agreement is the same as a repurchase agreement, but from the perspective of the buyer rather than the seller. Repurchase agreements are secured loans with INPRS' collateral held at the broker dealer or financial institution's custodian bank.

The amounts held at June 30, 2012, exclusive of securities lending reinvested cash collateral, are as follows:

(dollars in thousands)

Repurchase Agreements by Collateral Type		Cash Collateral Received		Market Value
U.S. Agencies	$	96,400	$	98,731
Corporate Bond		1,090		1,111
Total	**$**	**97,490**	**$**	**99,842**

Reverse Repurchase Agreements by Collateral Type		Market Value		Cash Collateral Posted
U.S. Inflation Linked Bonds	$	147,680	$	148,198
Total	**$**	**147,680**	**$**	**148,198**

Note 6. Derivative Financial Instruments

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. The fair value of all derivative financial instruments is reported in the Statement of Fiduciary Net Position as either assets or liabilities, and the change in the fair value is recorded in the Statement of Changes in Fiduciary Net Position as investment income. A derivative instrument could be a contract negotiated on behalf of the Master Trust and a specific counterparty. This would typically be referred to as an "OTC contract" (Over the Counter) such as swaps, forward contracts and TBAs (Mortgage To Be Announced). Alternatively, a derivative instrument, such as futures, could be listed and traded on an exchange and referred to as "exchange traded". Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements. Investments in limited partnerships may include derivatives that are not shown in the derivative total.

During the year, the Fund's derivative investments included:

Futures

A futures contract is an agreement between two parties to buy and sell a financial instrument at a set price on a future date.

INPRS' investment managers use financial futures to replicate an underlying security or index they intend to hold or sell in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security. Additionally, INPRS' investment managers use futures contracts to adjust the portfolio risk exposure. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities. No short sales of equity securities or equity index derivatives are permitted.

As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio.

Options

Options are agreements that give the owner of the option the right, but not obligation, to buy (in the case of a call) or to sell (in the case of a put) a specific amount of an asset for a specific price on or before a specified expiration date.

The purchaser of put options pays a premium at the outset of the agreement and stands to gain from an unfavorable change (i.e., a decrease) in the price of the instrument underlying the option. The writer of a call option receives a premium at the outset of the agreement and bears the risk of an unfavorable change (i.e., an increase) in the price of the instrument underlying the option. An interest rate swaption is the option to enter into an interest rate swap based off a set of predetermined conditions.

Options are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation. The fair value of exchange traded options is determined based upon quoted market prices.

The fair value of over the counter options is determined by external pricing services, using various proprietary methods, based upon the type of option.

Rights/Warrants

Rights provide the holder with the right, but not the obligation, to buy a company's common stock at a predetermined price, the subscription price. The right is good until its expiration date. A right permits the investor to buy at a price that may be below the actual market price for that stock. A warrant is an option to buy an underlying equity security at a predetermined price for a finite period of time.

Forwards

Foreign Currency

A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. A contract is classified as a forward contract when the settlement date is more than two days after the trade date. Risks associated with such contracts include movement in the value of a foreign currency relative to the U.S. dollar. The contracts are valued at forward exchange rates and include net appreciation / depreciation in the Statement of Fiduciary Net Position. Realized gains or losses on forward currency contracts is the difference between the original contract and the closing value of such contract and is included in the Statement of Changes in Fiduciary Net Position.

The Fund enters into forward currency forwards to manage exposure to fluctuations in foreign currency exchange rates on portfolio holdings and to settle future obligations.

TBA

A TBA (Mortgage To Be Announced) is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed upon date. Associated gains are derived from the change in market value of the contract due to a change in price of the underlying security. Future settlement risk is the risk of not receiving the asset or associated gains specified in the contract.

TBA's are used to achieve the desired market exposure of a security or asset class or adjust portfolio duration. The fair value is determined by external pricing services using various proprietary methods. TBA's are classified as fixed income investments.

Swaps

Interest Rate Swaps

Interest rate swaps are derivative instruments in which one party exchanges a stream of fixed interest rate cash flows for floating interest rate cash flows. A notional amount of principal is required to compute the actual cash amounts and is determined at the inception of the contract.

Interest rate swaps are generally used to manage interest rate risk, adjust portfolio duration, or rebalance the total portfolio to the target asset allocation.

The fair value is determined by external pricing services using various proprietary methods.

Inflation Swaps

An inflation swap is a derivative used to transfer inflation risk from one party to another through an exchange of cash flows. In an inflation swap, one party pays a fixed rate on a notional principal amount, while the other party pays a floating rate linked to an inflation index, such as the Consumer Price Index (CPI) or an inflation bond.

Credit Default Swaps

Credit default swap agreements involve one party (referred to as the buyer of protection) making a stream of payments to another party (the seller of protection) in exchange for the right to receive a specified return in the event of a default or other predetermined credit event for the referenced entity, obligation or index.

Credit default swaps are used to achieve the desired credit exposure of a security or basket of securities. One of the main advantages of a credit default swap is it allows for exposure to credit risk while limiting exposure to other risks, such as interest rate and currency risk.

The fair value is determined by external pricing services using various proprietary methods.

The table below summarizes INPRS' derivative information for the year ending June 30, 2012:

(dollars in thousands)

Investment Derivatives	Change in Fair Value	Fair Value	Notional (USD)
Listed Futures:			
Equity Index	$ 13,986	$ 13,986	$ 498,757
Commodity	(7,505)	(7,505)	1,009,250
Bond	(256)	(198)	278,813
Currency	(230)	275	246,611
Interest Rate	220	220	50,645
Total Listed Futures	**6,215**	**6,778**	**2,084,076**
Options:			
Listed			
Currency	(98)	83	10,870
Subtotal Listed	(98)	83	10,870
OTC			
Swaptions	2,493	(483)	498,720
Subtotal OTC	2,493	(483)	498,720
Total Options	**2,395**	**(400)**	**509,590**
Swaps:			
OTC			
Interest Rate Swaps	(1,007)	(2,104)	1,074,362
Inflation Swaps	49	49	13,440
Equity Index	68	(8)	8,100
Credit Default Swaps Single Name	827	1,195	263,429
Credit Default Swaps Index	1,191	664	301,647
Total Swaps	**1,128**	**(204)**	**1,660,978**
Sub Total Derivatives	**9,738**	**6,174**	**4,254,644**
TBA	**73**	**(70,287)**	**65,500**
TOTAL	**$ 9,811**	**$ (64,113)**	**$ 4,320,144**

(dollars in thousands)	Swap Maturity Profile at June 30 , 2012 (dollars in thousands)					
Swap Type	<1 yr	1-5 yrs	5-10 yrs	10-20 yrs	20+ yrs	Total
Interest Rate Swaps	$ -	$ (369)	$ (967)	$ 553	$ (1,321)	$ (2,104)
Inflation Swaps	-	(98)	147	-	-	49
Equity Index	-	-	(8)	-		(8)
Credit Default Swaps Single Name	(28)	151	(169)	-	1,241	1,195
Credit Default Swaps Index	-	726	(62)	-	-	664
Total Swap Fair Value	**$ (28)**	**$ 410**	**$ (1,059)**	**$ 553**	**$ (80)**	**$ (204)**

Credit Risk

Counterparty credit risk exists on all open OTC positions. Counterparty credit risk is the risk that a derivative counterparty may fail to meet its payment obligation under the derivative contract.

INPRS' investment managers use International Swaps and Derivative Association Master Agreements to further reduce counterparty risk by specifying credit protection mechanisms and providing standardization that improves legal certainty, thereby reducing the probability of unforeseen losses. Furthermore, the master agreements can provide additional credit protection through the requirement of collateral exchange and certain event of default and mutual termination provisions. Securities eligible as collateral are typically United States government bills and U.S. dollar cash.

The maximum amount of loss due to credit risk that the Fund would incur if the counterparty to the derivative instrument failed to perform according to the terms of the contract, without respect to any collateral or other security, or netting arrangements, is the total unrealized gain of derivatives at the end of the reporting period. The aggregate fair value of investment derivative instruments in asset positions at June 30, 2012, was $19,072 thousand of which $13,336 thousand was uncollateralized.

The tables below summarize INPRS's swap positions as of June 30, 2012:

(dollars in thousands)		Fair Value			Collateral	
Swaps Counterparty	S&P Rating	Receivable Unrealized Gain	Payable (Unrealized Loss)	Total Fair Value	Posted	Received
Bank of America	A	$ 1,467	$ (1,431)	$ (191)	$ -	$ -
Barclay's Capital London	A	1,748	(2,078)	393	473	(1,380)
BNP Paribas Securities Corp	AA-	15	(2)	15	-	-
Citibank	A	2,515	(3,126)	(680)	3,438	(970)
CME Central	AA-	2,698	(2,213)	792	-	-
Credit Suisse	A	1,836	(1,965)	(413)	1,030	(520)
Deutsche Bank	A+	3,104	(2,777)	(40)	500	(750)
Goldman	A-	1,084	(464)	301	9	(790)
HSBC Securities Inc.	A+	175	(127)	189	-	(330)
JPMorgan Chase Bank	A	2,379	(2,044)	(1,211)	940	-
Morgan Stanley Capital Services	A-	957	(1,203)	592	60	(715)
Royal Bank Of Scotland	A-	436	(121)	302	54	(1,190)
Societe Generale Paris	A	2	-	-	-	-
UBS	A	656	(394)	(253)	151	-
Grand Total		**$ 19,072**	**$ (17,945)**	**$ (204)**	**$ 6,655**	**$ (6,645)**

(dollars in thousands)

Credit Default Swaps				
Investment Type		**Reference**	**Fair Value**	**Notional**
Index	Bought	CDX IG	$ 270	$ 264,071
Index	Bought	CDX EM	637	8,800
Index	Bought	CDX HY	(128)	13,976
Index	Bought	CDX ITRAXX	(115)	14,800
Total CDS - Index			**$ 664**	**$ 301,647**
Single Name	Seller Protection	Various	$ (1,002)	$ 202,416
Single Name	Buyer Protection	Various	2,197	61,013
Total CDS - Single Name			**$ 1,195**	**$ 263,429**

Interest Rate Risk

The Fund has exposure to interest rate risk due to investments in interest rate and inflation swaps and TBAs. The required risk disclosures are included in the Interest Rate Risk schedule in Note 5.

The table below summarizes INPRS's Investments that are highly sensitive to interest rate changes:

(dollars in thousands)

Derivative Instruments Highly Sensitive to Interest Rate Changes		
Reference Rate	**Fair Value**	**Notional**
TBA Securities:		
3.50%	$ (7,396)	$ 7,000
4.00%	(2,660)	2,500
4.50%	(38,590)	36,000
5.00%	(21,641)	20,000
	$ (70,287)	$ 65,500
Interest Rate Swap:		
Pay Variable 3M CDOR / Receive Fixed Various 2.0% to 6.2%	$ 2,826	$ 52,087
Pay Fixed Various 1.8375% to 3.586% / Receive Variable 3M CDOR	(1,041)	26,191
Pay Fixed Various 1.01% to 3.06% / Receive Variable 6M EURIBOR	(1,912)	260,891
Pay Variable 6M EURIBOR / Receive Fixed Various 1.40% to 2.82%	1,829	243,137
Pay Variable 6M GBP-LIBOR / Receive Fixed Various 2.25% to 3.76%	132	18,178
Pay Fixed Various 2.25% to 3.94% / Receive Variable 6M GBP-LIBOR	(399)	40,842
Pay Variable MXN-TIIE / Receive Fixed Various 5.50% to 6.35%	102	9,690
Pay Fixed Various 1.135% to 2.75% / Receive Variable 3M USD-LIBOR	(4,945)	308,901
Pay Variable 3M USD-LIBOR / Receive Fixed Various 1.50% to 2.50%	1,106	108,500
Pay Variable BZDIOVRA / Receive Fixed Various 10.38% to 10.58%	198	5,945
	$ (2,104)	$ 1,074,362
Inflation Swap:		
Receive Variable CPURNSA / Pay 2.46%	$ (6)	$ 3,100
Pay Variable CPURNSA / Receive 1.84%	(98)	5,800
Pay Variable CPURANSA / Receive 2.66%	153	4,540
	$ 49	$ 13,440

Foreign Currency Risk

The Fund is exposed to foreign currency risk on its foreign currency forward contracts and futures contracts. The required risk disclosures are included in the Foreign Currency Risk schedule in Note 5.

At June 30, 2012, INPRS' investments included the following currency forwards balances:

(dollars in thousands)		
Foreign Currency Contract Receivable	$	963,719
Foreign Currency Contract Payable	$	(967,097)

The aggregate realized gain/loss recognized for the period ended June 30, 2012 due to foreign currency transactions was a $72,998 thousand realized gain.

Note 7. Long Term Commitments for Alternative Investments

INPRS enters into long term commitments for funding other investments in private equity and private real estate. These amounts include Euro-currency denominated, Norwegian Krone denominated and British Pound Sterling denominated commitments to limited liability partnerships. The remaining amount of unfunded commitments, converted to U.S. dollars using the closing exchange rate, as of June 30, 2012 is as follows:

(dollars in thousands)

Currency		Total Unfunded Commitments
Euro Currency Unit	$	102,907
Norwegian Krone		19,624
British Pound Sterling		2,222
U.S. Dollar		1,763,899
	$	**1,888,652**

Note 8. Risk Management

INPRS is exposed to various risks of loss. This includes damage to property owned by INPRS, personal injury or property damage liabilities incurred by an INPRS officer, agent or employee, errors, omissions and theft by employees, certain employee death benefits, and unemployment and worker's compensation costs for INPRS employees.

INPRS records an expenditure for any loss as the liability is incurred or replacement items are purchased. Additionally, INPRS purchases commercial insurance related to property, general liability and employee crime. The INPRS Board of Trustees administers the state of Indiana's risk financing activity for the state employees' death benefits.

Note 9. Contingent Liabilities

INPRS participates in lawsuits that, in management's opinion, will not have a material effect on the financial statements.

Note 10. Funded Status and Actuarial Information – Defined Benefit Plans

The funded status of each Defined Benefit retirement plan as of June 30, 2012, the most recent actuarial valuation date, is as follows:

(dollars in thousands)

Retirement Plans	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) or (Funding Surplus) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL or (Funding Surplus) as a Percent of Covered Payroll [(b)-(a)] / (c)
PERF	$12,088,225	$15,784,240	$ 3,696,015	76.6%	$4,904,052	75.4%
TRF 1996 Account	3,936,455	4,338,309	401,854	90.7	2,594,952	15.5
1977 Fund	3,786,595	4,122,436	335,841	91.9	697,111	48.2
JRS[1]	260,096	437,854	177,758	59.4	45,138	393.8
E,G,&C Plan[1]	76,007	113,283	37,276	67.1	25,752	144.8
PARF[1]	27,501	56,080	28,579	49.0	21,705	131.7
LEDB Plan	3,377	4,503	1,126	75.0	N/A[2]	N/A[2]
Total INPRS (*Excluding* TRF Pre-1996 Account)	**$20,178,256**	**$24,856,705**	**$ 4,678,449**	**81.2%**	**$8,288,710**	**56.4%**
TRF Pre-1996 Account	4,978,107	16,522,015	11,543,908	30.1	1,637,066	705.2
Total INPRS (*Including* TRF Pre-1996 Account)	**$25,156,363**	**$41,378,720**	**$ 16,222,357**	**60.8%**	**$9,925,776**	**163.4%**
Memo:						
TRF – Total	$ 8,914,562	$20,860,324	$ 11,945,762	42.7%	$4,232,018	282.3%

[1]In accordance with Legislation passed during March 2012, the State appropriated additional monies during FY2013 to reach a funded status of 80.0% based on the actuarial valuations as of June 30, 2012, for the following three (3) retirement plans:
Judges' Retirement System
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan
Prosecuting Attorneys' Retirement Fund

[2]Benefit formula is primarily based on service, rather than compensation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

The required Schedule of Funding Progress, presented as Required Supplementary Information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying Schedule of Contributions from Employers and Other Contributing Entities presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC), an amount that is actuarially determined in accordance with the parameters of GASB Statements 25, 27 and 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial accrued liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

In addition, the actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Key methods and assumptions used in the latest actuarial valuations are presented below:

Description	PERF	TRF	1977 Fund	JRS	E,G,&C Plan	PARF	LEDB Plan
Valuation Date	June 30, 2012						
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)						Traditional Unit Credit
Amortization Method	Level Dollar						
Amortization Period	30 Years, Closed						
Asset Valuation Method	4-Year Smoothed Market Value With 20% Corridor						
Actuarial Assumptions:							
Investment Rate of Return	6.75%						
Cost of Living Increases	1.0%	1.0%	2.25%	4.0%	1.0%	N/A	1.0%
Future Salary Increases	3.25% - 4.5%	3.0% - 12.5%	3.25%	4.0%	3.25%	4.0%	3.0%
Inflation	3.0%						

Note 11. Subsequent Events

Legislative Changes

Below is a summary of significant legislative changes that are effective July 1, 2012.

Public Employees' Retirement Fund

- PERF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2012. The amount of the one-time check ranged from $150 to $450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2011, and who was entitled to receive a monthly benefit on July 1, 2012.

Teachers' Retirement Fund

- TRF members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2012. The amount of the one-time check ranged from $150 to $450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2011, and who was entitled to receive a monthly benefit on July 1, 2012.
- In accordance with legislation (House Enrolled Act No. 1376) passed during March 2012, the State of Indiana appropriated $206.8 million to the TRF Pension Stabilization Fund in November 2012.

1977 Police Officers' and Firefighters' Pension and Disability Fund

- A 2.8 percent COLA was paid to eligible participants effective July 1, 2012, in accordance with IC 36-8-8-15.

Judges' Retirement System

- A 2.2 percent COLA was paid effective July 1, 2012, to eligible participants.
- In accordance with legislation (House Enrolled Act No. 1376) passed during March 2012, the State of Indiana appropriated $90.2 million to the Judges' Retirement System in November 2012.

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

- E,G,&C Plan members, beneficiaries, and survivors received a one-time check, based on years of service, in September 2012. The amount of the one-time check ranged from $125 to $400, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2011, and who was entitled to receive a monthly benefit on July 1, 2012.
- In accordance with legislation (House Enrolled Act No. 1376) passed during March 2012, the State of Indiana appropriated $14.6 million to the E,G,&C Plan in November 2012.

Prosecuting Attorneys' Retirement Fund

- In accordance with legislation (House Enrolled Act No. 1376) passed during March 2012, the State of Indiana appropriated $17.4 million to PARF in November 2012.

Note 12. Required Supplementary Information and Other Supplementary Schedules

The historical trend information designed to provide information about INPRS' progress in accumulating sufficient assets to pay benefits when due is included as Required Supplementary Information. The Schedule of Funding Progress and Schedule of Contributions from Employers and Other Contributing Entities are included immediately following the Notes to the Financial Statements. Other Supplementary Schedules (i.e., Schedule of Administrative and Project Expenses; Schedule of Investment Expenses; Schedule of Contractual and Professional Services Expenses) are presented for the purpose of additional analysis and are not a required part of the Financial Statements.

Schedule of Funding Progress

(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) or (Funding Surplus) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL or (Funding Surplus) as Percent of Covered Payroll [(b)-(a)] / (c)
Public Employees' Retirement Fund						
6/30/07	$ 12,220,934	$ 12,439,798	$ 218,864	98.2%	$ 4,385,676	5.0%
6/30/08	12,780,116	13,103,221	323,105	97.5	4,600,354	7.0
6/30/09	12,569,336	13,506,280	936,944	93.1	4,931,423	19.0
6/30/10	12,357,199	14,506,052	2,148,853	85.2	4,896,013	43.9
6/30/11	12,000,586	14,913,147	2,912,561	80.5	4,818,774	60.4
6/30/12	12,088,225	15,784,240	3,696,015	76.6	4,904,052	75.4
Teachers' Retirement Fund – Pre-1996 Account[1]						
6/30/07	$ 5,763,508	$ 15,988,259	$ 10,224,751	36.0%	$ 2,376,390	430.3%
6/30/08	5,953,991	15,792,305	9,838,314	37.7	2,295,816	428.5
6/30/09	5,109,086	16,027,093	10,918,007	31.9	2,030,484	537.7
6/30/10	5,382,410	16,282,066	10,899,656	33.1	1,865,102	584.4
6/30/11	5,227,402	16,318,404	11,091,002	32.0	1,762,750	629.2
6/30/12	4,978,107	16,522,015	11,543,908	30.1	1,637,066	705.2
Teachers' Retirement Fund – 1996 Account						
6/30/07	$ 2,713,051	$ 2,827,554	$ 114,503	96.0%	$ 1,891,605	6.1%
6/30/08	3,080,057	2,957,758	(122,299)	104.1	2,052,720	(6.0)
6/30/09	2,920,735	3,135,533	214,798	93.1	2,308,548	9.3
6/30/10	3,422,554	3,614,559	192,005	94.7	2,447,509	7.8
6/30/11	3,664,657	3,996,839	332,182	91.7	2,507,193	13.2
6/30/12	3,936,455	4,338,309	401,854	90.7	2,594,952	15.5
Teachers' Retirement Fund – Total[1]						
6/30/07	$ 8,476,559	$ 18,815,813	$ 10,339,254	45.1%	$ 4,267,995	242.3%
6/30/08	9,034,048	18,750,063	9,716,015	48.2	4,348,536	223.4
6/30/09	8,029,821	19,162,626	11,132,805	41.9	4,339,032	256.6
6/30/10	8,804,964	19,896,625	11,091,661	44.3	4,312,611	257.2
6/30/11	8,892,059	20,315,243	11,423,184	43.8	4,269,943	267.5
6/30/12	8,914,562	20,860,324	11,945,762	42.7	4,232,018	282.3
1977 Police Officers' and Firefighters' Pension and Disability Fund						
12/31/06	$ 2,860,512	$ 2,649,525	$ (210,987)	108.0%	$ 557,644	(37.8)%
12/31/07	3,281,480	2,889,295	(392,185)	113.6	603,963	(64.9)
12/31/08	3,352,705	3,150,827	(201,878)	106.4	644,936	(31.3)
6/30/09	3,265,598	3,332,686	67,088	98.0	649,018	10.3
6/30/10	3,374,438	3,639,669	265,231	92.7	675,797	39.2
6/30/11	3,593,787	3,638,956	45,169	98.8	687,342	6.6
6/30/12	3,786,595	4,122,436	335,841	91.9	697,111	48.2

Schedule of Funding Progress, continued

(dollars in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) or (Funding Surplus) (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL or (Funding Surplus) as Percent of Covered Payroll [(b)-(a)] / (c)
Judges' Retirement System[1]						
6/30/07	$ 211,747	$ 283,995	$ 72,248	74.6%	$ 29,712	243.2%
6/30/08	234,881	338,749	103,868	69.3	33,729	307.9
6/30/09	240,954	330,551	89,597	72.9	36,196	247.5
6/30/10	242,143	364,123	121,980	66.5	36,722	332.2
6/30/11	248,623	400,274	151,651	62.1	45,764	331.4
6/30/12	260,096	437,854	177,758	59.4	45,138	393.8
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan[1]						
6/30/07	$ 57,414	$ 74,451	$ 17,037	77.1%	$ 17,715	96.2%
6/30/08	65,375	77,177	11,802	84.7	21,333	55.3
6/30/09	68,170	89,296	21,126	76.3	25,238	83.7
6/30/10	70,327	97,862	27,535	71.9	26,709	103.1
6/30/11	72,599	101,534	28,935	71.5	24,028	120.4
6/30/12	76,007	113,283	37,276	67.1	25,752	144.8
Prosecuting Attorneys' Retirement Fund[1]						
6/30/07	$ 23,815	$ 32,052	$ 8,237	74.3%	$ 18,092	45.5%
6/30/08	26,350	38,069	11,719	69.2	20,617	56.8
6/30/09	26,467	44,632	18,165	59.3	20,782	87.4
6/30/10	26,166	49,174	23,008	53.2	21,016	109.5
6/30/11	25,651	53,252	27,601	48.2	18,082	152.6
6/30/12	27,501	56,080	28,579	49.0	21,705	131.7
Legislators' Retirement System – Defined Benefit Plan						
6/30/07	$ 5,035	$ 5,169	$ 134	97.4%	N/A[2]	N/A[2]
6/30/08	5,120	5,039	(81)	101.6	N/A[2]	N/A[2]
6/30/09	4,730	5,087	357	93.0	N/A[2]	N/A[2]
6/30/10	4,075	4,909	834	83.0	N/A[2]	N/A[2]
6/30/11	3,634	4,621	987	78.6	N/A[2]	N/A[2]
6/30/12	3,377	4,503	1,126	75.0	N/A[2]	N/A[2]

[1]In accordance with Legislation passed during March 2012, the State appropriated additional monies during FY2013 to reach a funded status of 80.0% based on the actuarial valuations as of June 30, 2012, for the following three (3) retirement plans:
Judges' Retirement System – $90,187 thousand
State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan – $14,619 thousand
Prosecuting Attorneys' Retirement Fund – $17,363 thousand
In addition the TRF Pre-1996 Account was appropriated $206,796 thousand during fiscal year 2013.
[2]Benefit formula is primarily based on service, rather than compensation.

Refer to Note 10. (Funded Status and Actuarial Information – Defined Benefit Plans) for the actuarial assumptions and methods used in preparing this schedule.

Schedule of Contributions from Employers and Other Contributing Entities

(dollars in thousands)

Public Employees' Retirement Fund

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/07	$ 275,171	$ 260,150	94.5%
6/30/08	291,397	303,877	104.3
6/30/09	316,059	323,151	102.2
6/30/10	360,183	331,090	91.9
6/30/11	483,842	342,779	70.8
6/30/12	509,724	397,843	78.1

Teachers' Retirement Fund Pre-1996 Account

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/07	$ 602,904	$ 636,039	105.5%
6/30/08	678,050	675,682	99.7
6/30/09	700,307	706,366	100.9
6/30/10	850,493	731,149	86.0
6/30/11	894,507	748,978	83.7
6/30/12	866,207	764,423	88.2

Teachers' Retirement Fund 1996 Account

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/07	$ 139,978	$ 117,001	83.6%
6/30/08	122,009	132,446	108.6
6/30/09	119,331	147,425	123.5
6/30/10	101,627	154,491	152.0
6/30/11	154,142	166,633	108.1
6/30/12	173,651	181,067	104.3

Teachers' Retirement Fund – Total

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/07	$ 742,882	$ 753,040	101.4%
6/30/08	800,059	808,128	101.0
6/30/09	819,638	853,791	104.2
6/30/10	952,120	885,640	93.0
6/30/11	1,048,649	915,611	87.3
6/30/12	1,039,858	945,490	90.9

1977 Police Officers' and Firefighters' Pension and Disability Fund

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
12/31/06	$ 102,964	$ 143,272	139.1%
12/31/07	108,741	122,712	112.7
12/31/08	117,773	133,196	112.6
6/30/09	62,881	64,285	102.2
6/30/10	126,558	130,775	103.3
6/30/11	133,903	133,726	99.9
6/30/12	141,988	135,605	95.5

Judges' Retirement System

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/07	$ 12,249	$ 14,662	119.7%
6/30/08	10,028	15,920	158.8
6/30/09	16,131	20,861	129.3
6/30/10	16,077	18,631	115.9
6/30/11	18,910	19,200	101.5
6/30/12	19,664	18,896	96.1

State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/07	$ 3,128	$ 3,359	107.4%
6/30/08	3,676	4,854	132.0
6/30/09	4,427	5,294	119.6
6/30/10	5,237	5,256	100.4
6/30/11	5,179	5,197	100.3
6/30/12	5,532	5,054	91.4

Prosecuting Attorneys' Retirement Fund

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/07	$ 1,044	$ 190	18.2%
6/30/08	1,040	170	16.3
6/30/09	1,340	170	12.7
6/30/10	1,663	170	10.2
6/30/11	1,960	170	8.7
6/30/12	2,037	1,839	90.3

Legislators' Retirement System Defined Benefit Plan

Fiscal Year Ended	Annual Required Contribution	Annual Employer Contribution	Percentage Contributed
6/30/07	$ 120	$ 100	83.3%
6/30/08	66	100	151.5
6/30/09	45	100	222.2
6/30/10	63	0	0.0
6/30/11	113	0	0.0
6/30/12	113	112	99.1

Refer to Note 10. (Funded Status and Actuarial Information – Defined Benefit Plans) for the actuarial assumptions and methods used in preparing this schedule.

Schedule of Administrative and Project Expenses
Fiscal Year Ended June 30

(dollars in thousands)

	2012	2011
Personnel Services:		
Salaries and Wages	$ 9,113	$ 8,581
Temporary Services	6,898	7,379
Employee Benefits	3,828	3,716
Total Personnel Services	**19,839**	**19,676**
Contractual and Professional Services:		
Consulting Services / Information Technology	3,586	3,984
Benefit Payment Processing Fees	2,445	2,227
Actuarial Services	889	819
Legal Services	183	187
Total Contractual and Professional Services	**7,103**	**7,217**
Communications:		
Postage	1,004	869
Printing	763	921
Telephone	133	151
Total Communications	**1,900**	**1,941**
Miscellaneous:		
Depreciation and Amortization	1,375	1,216
Office Rent and Expenses	974	1,222
Memberships and Training	109	81
Equipment Rental	87	113
Travel	51	100
Other Administrative Expenses	51	258
Total Miscellaneous	**2,647**	**2,990**
Total Administrative Expenses	**$ 31,489**	**$ 31,824**
Total Project Expenses	**$ 9,359**	**$ 4,094**
Total Administrative and Project Expenses	**$ 40,848**	**$ 35,918**

Schedule of Contractual and Professional Services Expenses
Fiscal Year Ended June 30

(dollars in thousands)

Vendor Name	2012	2011	Nature of Services
Affiliated Computer Services, Inc. / Xerox	$ 2,506	$ 2,227	Recordkeeper Services
Oracle America, Inc.	887	871	Licenses and Training
Indiana Office of Technology	877	917	IT Network Support and Services
PricewaterhouseCoopers LLP	721	697	Actuarial Services
BlueLock LLC	540	508	Infrastructure Support
Protiviti Inc.	212	-	Enterprise Risk Management
Dell Marketing LP	180	29	Hardware / Software / Support
Ernst & Young LLP	172	344	Accounting & Process Documentation / Internal Audit
Nyhart, Inc.	167	88	Actuarial and Legislative Services
Auditor Of State - Oracle	135	79	Software Licenses
IBM Corporation	121	118	Software Licenses
Ice Miller LLP	116	112	Legal Services
AIRvan Consulting LLC	67	51	Market Research Services
Omkar Markand, M.D.	50	43	Medical Consulting - 1977 Fund
Gartner, Inc.	44	43	IT Research
Indiana State Board of Accounts	44	46	Audit Services
Information Builders	41	40	WebFocus Consulting / Maintenance
McLagan	40	-	Human Resource Management Services
CEM Benchmarking, Inc.	35	70	Benchmarking Services
LexisNexis	27	-	Address Search Services
Automatic Data Processing, Inc.	24	-	Payroll Processing Services
Krieg DeVault LLP	24	-	Legal Services
Policy Technologies International, Inc.	22	56	Software Services
DLT Solutions	21	36	Software Licenses
Novatus, Inc.	21	17	Contract Management Software License
ERP Control Specialists, LLC	20	29	Internal Audit Software
Stephenson Morow & Semler	11	26	Legal Services
Callan Associates, Inc.	-	56	Global Custody Consulting
Cortex Applied Research, Inc.	-	14	Research Services
Mariani Law LLC	-	62	Legal Services
McCready and Keene, Inc.	-	33	Actuarial Services
Robert Half International, Inc.	-	16	IT Supplemental Staffing
Serena Software, Inc.	-	114	Project Tracking Software Licenses
Strategic Financial Solutions LLC	-	59	Software Licenses
Vinzant Software Inc.	-	12	Software Licenses
KPMG LLP	(88)	304	Strategic Assessment and IT Consulting
Other Contractual and Professional Services	66	100	Other Services
Total Contractual and Professional Services Expenses	**$ 7,103**	**$ 7,217**	

Fees paid to investment professionals can be found in the Investment Section.

Schedule of Investment Expenses
Fiscal Year Ended June 30

(dollars in thousands)

	2012	2011
Investment Consultants:		
Strategic Investment Solutions	$ 1,071	$ 1,290
Aksia	525	825
ORG Portfolio Management LLC	339	275
Hinkle Creek Consulting	268	-
Capital Cities	128	88
Institutional Shareholder Services	93	94
Hamilton Lane	42	-
S.R. Batliboi and Co.	22	11
RV Kuhns and Associates Inc.	10	114
Mercer Investment Consulting	-	50
Callan Associates	-	24
Total Investment Consultants	**2,498**	**2,771**
Investment Custodians:		
BNY Mellon	439	-
JP Morgan	98	599
The Northern Trust Company	(5)	330
Total Investment Custodians	**532**	**929**
Investment Recordkeeper Fees	6,098	6,932
Investment Management Fees	106,484	123,670
Investment Staff Expenses	1,322	1,392
Investment Administrative Expenses	840	1,727
Total Investment Expenses	**$ 117,774**	**$ 137,421**